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# **Brands and Corporate Power**

## **Abstract**

This article argues that brands, with trade marks as their legal anchors, are important sources of corporate power and have facilitated a significant expansion of this power. Trade mark law has contributed to the development of firms and to the rise of powerful business actors that rely on strong marketing presences based on brands to attract demand, but use flexible supply chains to meet this demand. This article considers the relationship between trade marks and brands and the kinds of corporate power to which brands can contribute. It shows how brands have enabled some firms to transform their activities in response to changing economic and social conditions and even to transform themselves as business actors. Whilst trade mark law provides some mitigation of the power that brands can confer, it can still be substantial and to some extent of questionable social value.

## **Keywords**

Trade marks; brands; firms; corporate power; competition; business organisation; value chains.

# **Brands and Corporate Power\***

## **1. Introduction**

Large firms affect our lives in many ways. When we think of them, we are likely to think of their trading names, brand names, logos and other signifiers. We are less likely to think of specific corporate names or their legal natures and structures. Trading names and logos give these firms a presence in our minds and can make them seem more real. They enable what may be complex and changing legal structures to manifest themselves as relatively simple entities with distinctive personalities. They are also valuable corporate assets and, as this article will seek to demonstrate, important sources of corporate power.

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This article will argue that the ability of companies and other business actors (hereafter “firms”)<sup>1</sup> to secure exclusive rights over names and other signifiers through registering them as trade marks enables these firms to gain and exploit significant power.<sup>2</sup> In part, this is because the firms can use these signifiers to present relatively simple, cohesive and stable identities to the outside world that can mask their complexity as legal structures and their tendency to change and evolve. It is also because firms can use their signifiers to establish brands for the goods or services (“products”) from which they earn their profits and to turn them into specific objects of demand. Firms can then use these same signifiers as communication devices to engage in marketing activity to solicit and attract demand specifically to their branded products and to ensure that this demand (“specific demand”) is directed and reeled in to these products. A firm’s success at attracting and securing specific demand for its branded products can give it not only significant market power, but also bargaining power with other parties in the value chains in which it operates. It can even give the firm strategic power, enabling it to transform itself as an organisation to respond to changes in the business environment and to seize new opportunities for exploiting its market power.

This article will relate the potential advantages that firms can gain from the ownership of trade marks to the forms of corporate power that John Parkinson identified in his seminal book on *Corporate Power and Responsibility*.<sup>3</sup> The availability of this resource has influenced the evolution of firms, the structuring of value chains and the balance of power within these chains.<sup>4</sup> The contribution of trade marks to corporate power is therefore a dynamic one that can enable firms to transform themselves in order to gain greater power or to exploit their power more effectively. Apple Inc. provides a good example of this

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<sup>1</sup> Trade mark law uses the term “undertaking” to refer to business actors. This term includes a company or any other entity or organisation that can operate as a cohesive unit in relation to the use of the trade mark: Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39]. It may therefore cover a complex business organisation consisting of a number of separate legal persons such as a group of companies as long as they are subject to a single point of ultimate control: Case C-520/09 *Arkema v European Commission* [2011] ECR I-8901 [37]. This article will use the term “firm” to refer to an undertaking in this broad sense unless the context requires otherwise.

<sup>2</sup> In the European Union, Directive 89/104/EEC (amended and codified as Directive 2008/95/EC) (“the Directive”) has substantially harmonised the law governing registered trade marks. The Trade Marks Act 1994 (“the 1994 Act”) implemented the Directive in the United Kingdom. The Council of the EU published a revised Directive in December 2015 (“the 2015 Directive”), which member states are required to implement over the following three years. The 2015 Directive has not significantly altered the law relevant to the issues addressed in this article. Trade marks may also enjoy some legal protection under national laws that does not depend on registration. In the United Kingdom, this is available under the tort of passing off.

<sup>3</sup> J.E. Parkinson, *Corporate Power and Responsibility* (The Clarendon Press, 1993) at 8-21.

<sup>4</sup> On the importance of brand-based marketing to the development of firms, see, for example, M. Wilkins, “The Neglected Intangible Asset: The Influence of the Trade Mark on the Rise of the Modern Corporation”, (1992) 34 *Business History* 66-95; S. Kim, “The Rise of Multiunit Firms in U.S. Manufacturing”, (1999) 36 *Explorations in Economic History* 360-386; R. Church and A. Godley, “The Emergence of Modern Marketing: International Dimensions”, (2003) 45 *Business History* 1-5; T. da Silva Lopes and M. Casson, “Entrepreneurship and the Development of Global Brands”, (2007) 81 *Business History Review* 651-680; T. da Silva Lopes and P. Guimaraes, “Trademarks and British Dominance in Consumer Goods, 1876-1914”, (2014) 67 *Economic History Review* 793-817.

contribution.<sup>5</sup> This firm has used the brand name “Apple” along with various product brands to establish a strong marketing presence and to gain substantial market power in its dealings with consumers. This branding has given a distinctive and personable identity to a complex group of corporate entities based in California. Apple’s brand name and other signifiers and those of its main product brands have become familiar and widely recognised presences on the market and Apple has earned record profits from its success at attracting and reeling in specific demand to these brands.<sup>6</sup> The brand-valuation organisation Interbrand ranked Apple as by far the most valuable global brand in 2016, estimating the value of this intangible resource at over \$170 billion based on factors such as its power to attract specific demand and to command premium prices for its products on a global scale.<sup>7</sup> Apple, like many other firms in this position, has been able to use its strong marketing presence and the market power associated with this to focus its core capabilities on higher value activities such as marketing and product design and development, to outsource much of the production of the products sold under its brands into trans-Pacific supply chains and to exercise strategic power over these supply chains.<sup>8</sup>

The classification of trade mark law as a branch of intellectual property law has tended to mask the contribution that trade marks and the brands they signify have made to the structuring and restructuring of firms and of the value chains in which they operate and to the ability of firms to gain and exploit significant power.<sup>9</sup> Even within trade mark law, the main emphasis has been on their role in enabling firms to attract specific demand

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<sup>5</sup> Apple was founded in 1976, incorporated in the State of California as Apple Computer, Inc. in 1977 and changed its name to Apple Inc. in 2007. See *Apple Corps Limited v Apple Computer, Inc.* [2006] EWHC 996 [3]; N. Rawlinson, “History of Apple 1976-2016”, available at <http://www.macworld.co.uk/feature/apple/history-of-apple-steve-jobs-what-happened-mac-computer-3606104/> (accessed 24 March 2017).

<sup>6</sup> Though its record profits seem to have peaked in 2015: V. Goel, “After 13 Years, Apple Revenue Drops” *The New York Times*, April 27 2016; R. Neate, “Apple’s Annual Profits Fall for First Time in 15 Years as iPhone Sales Decline”, *The Guardian*, 25 October 2016; available at <https://www.theguardian.com/technology/2016/oct/25/apple-profits-sales-decline-2016-iphone-7> (accessed 24 March 2017).

<sup>7</sup> Since 2000, Interbrand has produced an annual ranking of the “Best Global Brands” by “brand value” in conjunction with *Business Week* magazine. Apple has been ranked as the most valuable global brand since 2013, when it overtook Coca-Cola. For details of their rankings and methodology, see [www.interbrand.com](http://www.interbrand.com) (accessed 24 March 2017).

<sup>8</sup> J. Froud et al, “Financialization across the Pacific: Manufacturing Cost Ratios, Supply Chains and Power”, (2014) 25 *Critical Perspectives on Accounting* 46-57 See also the working paper on which this article is based: J. Froud et al, “Apple Business Model: Financialization across the Pacific”, (2012) CRESC Working Paper no. 111, available at <http://www.cresc.ac.uk/medialibrary/workingpapers/wp111.pdf> (accessed 24 March 2017). See further C. Duhigg and K. Bradsher, “How the U.S Lost Out on iPhone Work”, *The New York Times*, January 21 2012; R. Fernandez and R. Hendrikse, “Rich Corporations, Poor Societies: The Financialisation of Apple”, (GoodElectronics, SOMO, 2015) available at <https://www.somo.nl/wp-content/uploads/2015/10/Rich-corporations-poor-societies.pdf> (accessed 24 March 2017).

<sup>9</sup> There has been recognition of the importance of this contribution in literature on business and economic history: see n. 4.

rather than their role in the development of firms and the dynamics of value chains.<sup>10</sup> However, the organisational role of trade marks and brands has been important. They have contributed to the responses of firms to changing economic conditions such as the industrialisation of production and the new forms of technology and communication that emerged in the late twentieth and early twenty first centuries.<sup>11</sup> Together with company law, trade mark law contributes to an overall law of business organisation that can engage fruitfully with literature from other disciplines on business organisation and the evolution of value chains.<sup>12</sup>

The aim of this article is to show how firms can use trade marks and brands to gain and exploit corporate power and to transform themselves as organisations in order to maintain or increase that power and to exploit it to a much greater extent. It will argue that recognition of this contribution is important to understanding and analysing corporate power and seeking to control it. The article will also consider how trade marks can be a source of excessive power and how the law has developed to provide some mitigation of this risk. However, these developments have sometimes lacked the conceptual clarity that explicit recognition of their relevance to corporate power could provide. The article will proceed as follows. Section 2 will consider the legal nature of the trade mark and its relationship to the concept of a brand. Section 3 will address the nature of corporate power and those sources of it to which brands contribute. Section 4 will look at how firms can use brands to attract specific demand and gain market power and at the legal rights that support and limit this capacity. Section 5 will consider the organisational and supply-side role of brands. Section 6 will draw some conclusions.

## 2. Brands and Trade Marks

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<sup>10</sup> On the organisational role of trade marks, see A.P. Griffiths, *An Economic Perspective on Trade Mark Law* (Edward Elgar Publishing, 2011) at 165-217; M. Chon, “Slow Logo: Brand Citizenship in Global Value Networks”, (2014) 47 *UC Davis Law Review* 935-968.

<sup>11</sup> M. Wilkins, n. 4; T. da Silva Lopes and M. Casson, n. 4; T. da Silva Lopes and P. Guimaraes, n. 4.

<sup>12</sup> On business organisation, see, for example, G.B. Richardson, “The Organisation of Industry”, (1972) 82 *Economic Journal* 883-896; R.N. Langlois and N.J. Foss, “Capabilities and Governance: The Rebirth of Production in the Theory of Economic Organization”, (1999) 52 *Kyklos* 201-218; R.N. Langlois, “The Vanishing Hand: The Changing Dynamics of Industrial Capitalism”, (2003) 12 *Industrial and Corporate Change* 351-385. On value chains, see, for example, R.C. Feenstra, “Integration of Trade and Disintegration of Production in the Global Economy”, (1998) 12 *Journal of Economic Perspectives* 31-50; G. Gereffi, J. Humphrey and T. Sturgeon, “The Governance of Global Value Chains”, (2005) 12 *Review of International Political Economy* 78-104; S. Ponte and T. Sturgeon, “Explaining Governance in Global Value Chains: A Modular Theory-Building Effort”, (2014) 21 *Review of International Political Economy* 195-223; S. Azmeh and K. Nadvi, “Asian Firms and the Restructuring of Global Value Chains”, (2014) 23 *International Business Review* 707-717.

The term “brand” is familiar in marketing and related disciplines, but does not have a recognised legal definition.<sup>13</sup> It describes a distinctive and exclusive identity that a firm can confer on its products to facilitate their marketing to consumers and to provide a focus for consumer demand and loyalty.<sup>14</sup> The fact that it is under the exclusive control of one firm gives it the capacity to acquire a reputation and image that may increase the appeal of these products. In some cases, a brand may be a distinctive identity that encompasses a firm’s culture and style as a business organisation and connects the firm’s products to that culture and style.<sup>15</sup> A brand is signified through a name and other signs and these are likely to be registered as trade marks. Brands have come to be recognised as valuable intangible resources in their own right and efforts have been made to value them to demonstrate their importance in commercial life,<sup>16</sup> as with the annual ranking exercise conducted by Interbrand.<sup>17</sup>

The term “trade mark” is legally defined, being a sign that is capable of distinguishing the products “of one undertaking” from those “of other undertakings”.<sup>18</sup> It should therefore be a word, word combination, logo or other sign that consumers of a particular kind of product are likely to recognise as signifying that the specific products that it designates and distinguishes (“branded products”) have a specific commercial origin.<sup>19</sup> Firms can gain exclusive rights over distinctive signs to use for this purpose through registering them as trade marks. Systems for registering signs as trade marks had emerged in their modern form along with a degree of regulation at the international level by

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<sup>13</sup> See, for example, J. Phillips, *Trade Mark Law: A Practical Anatomy* (Oxford University Press, 2003) at 7-10; W.R. Cornish, *Intellectual Property: Omnipresent, Distracting, Irrelevant?* (Oxford University Press, 2004) at 73-114; J. Davis and S.M. Maniatis, “Trademarks, Brands, and Competition” in T. da Silva Lopes and P. Duguid (eds), *Trademarks, Brands, and Competitiveness* (Routledge, 2013) (paperback edition) 119-137 at 120-122; D.R. Desai and S. Weber Waller, “Brands, Competition, and Antitrust Law” in D.R. Desai, I. Lianos and S. Weber Waller (eds.), *Brands, Competition Law and IP* (Cambridge University Press, 2015) 75-112 at 77-83.

<sup>14</sup> See, for example, the definitions of a brand as “a name, logo, or symbol intended to distinguish a particular seller’s offerings from those of competitors” on the basis that “[s]trong, relevant identities for specific branded offerings enhance a firm’s profitability and influence the terms of competition in its industry”: N.F. Koehn, *Brand New: How Entrepreneurs Earned Consumers’ Trust from Wedgwood to Dell* (Harvard Business School Press, 2001) at 4-5; and as “a name, term, symbol, or design (or combination of these) used by a firm to identify its goods or services and differentiate them from the competition”: T. da Silva Lopes and P. Duguid, “Introduction: Brands and Competitiveness”, in T. da Silva Lopes and P. Duguid (eds), *Trademarks, Brands, and Competitiveness* (Routledge, 2013) (paperback edition) 1-8 at 1.

<sup>15</sup> A. George, “Brand Rules: When Branding Lore meets Trade Mark Law”, (2006) 13 *Brand Management* 215-232; J. Davis and S.M. Maniatis, n. 13; C.A. Corrado and J.X. Hao, “Brands as Productive Assets: Concepts, Measurement and Global Trends”, (2014) WIPO Economic Research Working Paper No. 13, available at [http://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_econstat\\_wp\\_13.pdf](http://www.wipo.int/edocs/pubdocs/en/wipo_pub_econstat_wp_13.pdf) (accessed 24 March 2017).

<sup>16</sup> J. Davis, “The Value of Trade Marks: Economic Assets and Cultural Icons”, in Y. Gendreau (ed.), *Intellectual Property: Bridging Aesthetics and Economics* (Éditions Thémis, 2006) 97-124 at 110-117.

<sup>17</sup> See n. 7.

<sup>18</sup> Directive, art. 2; 2015 Directive, art. 3; 1994 Act, s. 1. See also the Agreement on Trade-Related Aspects of Intellectual Property Rights 1994, Apr. 15, 1994, art. 3, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C (“the TRIPs Agreement 1994”), art. 15(1).

<sup>19</sup> This means that one particular undertaking has authorised the use of the trade mark to market the products in question and that this undertaking has control over the products when they are first marketed with this identity: Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39].

the end of the nineteenth century.<sup>20</sup> Trade marks have to be registered for a particular kind (or kinds) of products and this specification limits the scope of the exclusive rights that the trade mark's proprietor (or "owner") acquires over the relevant sign,<sup>21</sup> although their scope can cover the use of identical and similar signs in relation to other kinds of product and expands as the trade mark gains wider recognition with consumers.<sup>22</sup> To prevent abuse of the system, firms cannot register signs as trade marks that relevant consumers are unlikely to perceive as signifying a specific commercial origin or signs that have some other meaning or significance to relevant consumers.<sup>23</sup>

In broad terms therefore, a trade mark is a legally protectable sign that signifies a brand and a brand is an exclusive identity that a trade mark signifies and can confer on products of a particular kind or kinds. However, the relationship between the two may not always be so straightforward in practice. A firm may use more than one trade mark to signify a particular brand, it may use these signs in varying combinations and it may change one or more of them over time.<sup>24</sup> A firm may use certain trade marks to signify a discrete brand for a particular line of products and others to signify an overarching corporate or umbrella brand that covers its overall activities or a range of product brands.<sup>25</sup> The ability of firms to present simple, distinctive and personable identities to consumers when marketing their products has been an important contributor to their capacity to gain and secure market

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<sup>20</sup> L. Bently, "The Making of Modern Trade Mark Law: The Construction of the Legal Concept of Trade Mark (1860-1880)" in L. Bently, J. Davis and J. Ginsberg (eds), *Trade Marks and Brands: An Interdisciplinary Critique* (Cambridge University Press, 2008) 3-41; P. Duguid, T. da Silva Lopes, and J. Mercer, "Reading Registrations: An Overview of 100 Years of Trademark Registrations in France, the United Kingdom, and the United States", in T. da Silva Lopes and P. Duguid (eds), *Trademarks, Brands, and Competitiveness* (Routledge, 2013) (paperback edition) 9-30. The main regulation at the international level is under the Paris Union Convention for the Protection of Industrial Property of 20 March 1883 (as subsequently revised and as amended) ("the Paris Convention"); and under the TRIPs Agreement 1994.

<sup>21</sup> This is on the basis that the applicant should already be using the sign to market products of this kind or have a genuine intention to do so. To ease searching and assessment of a proposed mark's acceptability for registration, the Trade Marks Register is divided into 45 classes (34 for goods and 11 for services) in accordance with the Nice Agreement of 1957 (as amended). However, the kind of products for which a trade mark is to be registered must be specified with precision within a particular class: Case C-307/10 *CIPA v Registrar of Trade Marks* ("IP Translator") [2013] Bus LR 740.

<sup>22</sup> See section 4 below.

<sup>23</sup> A proposed trade mark must be refused registration if it is "devoid of any distinctive character": Directive, art. 3(1) (b); 2015 Directive, art. 4(1)(b); 1994 Act, s. 3(1)(b). There are also exclusions on the registration of signs that consist entirely of place, names, descriptive terms, customary signs or other signs with "non-origin" significance to consumers: Directive, art. 3(1)(c) and (d); 2015 Directive, art. 4(1) (c) and (d); 1994 Act, s. 3(1)(c) and (d). An applicant can only overcome these exclusions through showing that relevant consumers have come to perceive them as trade marks following their use as such in practice: Case C-215/14 *Société des Produits Nestlé v Cadbury* [2015] Bus LR 1034 [59]-[60]. The Directive also precludes the registration of certain shapes as trade marks to prevent firms gaining an unfair monopoly over standard, useful or valuable shapes and the 2015 Directive will extend these exclusions to include "another characteristic" of a product as well as its shape: Directive, art. 3(1)(e); 2015 Directive, art. 4(1) (e); 1994 Act, s. 3(2).

<sup>24</sup> Starbucks, for example, changed the appearance of its mermaid logo in early 2011: "Starbucks drops its Name and the Word Coffee from its Logo", BBC News, January 6 2011, available at <http://www.bbc.co.uk/news/business-12125440> (accessed 24 March 2017).

<sup>25</sup> On the distinction between corporate and product brands, see C.A. Corrado and J.X. Hao, n. 15, at 10.

power through inspiring trust and loyalty in consumers.<sup>26</sup> Nevertheless, even the trade marks used to signify corporate or umbrella brands must be registered for specific kinds of products and this may limit the overall reach of their exclusive rights and the scope of their power. For example, the reach of the corporate brand associated with Apple Inc. and of certain of its signifiers has been limited by the established presence of the firm Apple Corps Ltd, which the members of the band “the Beatles” had founded some years before.<sup>27</sup> Both firms have used the same and similar signs for various kinds of products and this has limited the extent to which each one can use these signs.<sup>28</sup>

Trade marks therefore provide the main legal support for brands. A brand is a resource that its owner can use to market its products more effectively and to solicit and attract specific demand to them. Brands can do this through conveying information about the branded products, in particular the fact they have a specific commercial origin. They can also convey information about the likely quality and other characteristics of the branded products because of their owners’ exclusive right to determine which products can be marketed as branded products.<sup>29</sup> This exclusive right enables an owner to control their quality and other characteristics and thereby to ensure that the branded products have a specific and consistent level of quality and set of other characteristics that unite them and differentiate them from other products of the same kind.<sup>30</sup> In this respect, the legal definition of a trade mark as sign that should distinguish the products “of one undertaking” from those “of other undertakings” understates the role and importance of brands as resources for attracting and securing specific demand.<sup>31</sup> The definition emphasises their exclusivity to one firm, which is the legal foundation of their potential appeal inasmuch as consumers can view the branding of products as signifying an acceptance of responsibility for them.<sup>32</sup> However, the definition does not bring out the owner’s ability to control their quality and other characteristics and to ensure their consistency so that brands can be used to convey information about these matters as well.

A firm may therefore establish and use various product brands to customise different versions of the same kind of product and to take advantage of the fact that consumers may have differing preferences in this respect and may even value product

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<sup>26</sup> R. Marchand, *Creating the Corporate Soul: The Rise of Public Relations and Corporate Imagery in American Big Business* (University of California Press, 2001) at 7-47; J. Kahn, “Product Liability and the Politics of Corporate Presence: Identity and Accountability in *Macpherson v. Buick*” (2001) 35 *Loyola of Los Angeles Law Review* 3-64 at 3-17; T. da Silva Lopes and M. Casson, n. 4, at 655-656.

<sup>27</sup> *Apple Corps Limited v Apple Computer, Inc* [2006] EWHC 996.

<sup>28</sup> *Ibid.*

<sup>29</sup> *Major Bros. v Franklin* [1908] 1 KB 712 (HC); *Primark v Lollypop Clothing* [2001] FSR 637 (HC).

<sup>30</sup> *Andrew (John) v Kuehnrich* (1913) 30 RPC 677(CA). See T. da Silva Lopes and M. Casson, n. 4, at 655.

<sup>31</sup> On the legal definition, see above at n. 18.

<sup>32</sup> In *Scandecor Development v Scandecor Marketing*, Lord Nicholls referred to a trade mark as the “aegis” and “banner” of its owner: [2001] UKHL 21; [2002] FSR 122 [19]. See also *Aristoc v Rysta* [1945] AC 68 (HL) at 101-102; *Glaxo Group v Dowelhurst* [2000] FSR 529 (HC) at 540-541.



differentiation for its own sake.<sup>33</sup> Section 3 will consider the various contributions that this aspect of a brand can make to its potential power to attract and secure specific demand. However, whilst a brand may come to define branded products in terms of their likely quality and other characteristics as well their commercial origin, the owner is not obliged to ensure that these remain constant and has discretion to vary them.<sup>34</sup> The owner also has discretion over the arrangements it makes for producing or procuring the branded products and is free to vary them.<sup>35</sup> Section 5 will consider further how the owner's discretion over these matters can further increase the overall power that the owner may enjoy.

Finally, as well as signifying particular brands and differentiating products on this basis, trade marks can be used to signify that brands are economically linked to another.<sup>36</sup> This capacity enables firms to establish overtly-connected families of brands and provides a legal platform for such marketing practices as brand extension and merchandising.<sup>37</sup> A firm may use a specific trade mark (or set of marks) to signify this kind of connection or it may use a sign that is similar to a familiar trade mark in a way that consumers are likely to perceive as signifying an economic connection.<sup>38</sup> On the other hand, the owner is not obliged to reveal the connections that may exist between different brands that it controls and certain brands may have greater appeal to consumers when their economic connections are obscured.<sup>39</sup>

### 3. Corporate Power

The high values given to Apple and other leading brands in the Interbrand Top 100 reflect their capacity to attract specific demand to and command premium prices for their

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<sup>33</sup> On the rise of competition based on product customisation and product differentiation, see, for example, W. Streeck, "Citizens as Consumers: Considerations on the New Politics of Consumption", (2012) 76 *New Left Review* 27-47 at 28-36; .

<sup>34</sup> *Bostitch Trade Mark* [1963] RPC 183 at 197; Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38].

<sup>35</sup> The commercial origin that a trade mark guarantees "is not defined by reference to the manufacturer but by reference to the point of control of manufacture": Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [37].

<sup>36</sup> Trade mark law protects this capacity through treating the creation of a false impression of such a connection as a form of "confusion" and therefore as potential infringement of the trade mark. This is discussed further in section 4 below.

<sup>37</sup> On brand extension, also known as "brand stretching", see J.P. Choi, "Brand Extension as Informational Leverage", (1998) 65 *Review of Economic Studies* 655-669; L.M. Pepall and D.J. Richards, "The Simple Economics of Brand Stretching", (2002) 75 *Journal of Business* 535-552. On merchandising, see AG Colomer's discussion of this in the *Arsenal FC* case: Case C-206/01 *Arsenal FC plc v Matthew Reed* [2003] ECR I-10273 [AG84].

<sup>38</sup> Case C-251/95 *Sabel v Puma* [1997] ECR I-6013 [22]-[23]; Case C-120/04 *Medion v Thomson Multimedia* [2005] ECR I-8551 [27]-[28]; Case C-361/04 *Ruiz-Picasso v OHIM* [2006] ECR I-643 [19]-[20]; Case C-252/12 *Specsavers v Asda* [2013] Bus LR 1277 [34]-[35].

<sup>39</sup> On the limitations of branding as a source of information about commercial provenance, see, for example, M. Chon (2014), n. 10; M. Chon, "Trademark Goodwill as a Public Good: Brands and Innovations in Corporate Social Responsibility", forthcoming in (2017) 21 *Lewis & Clark Law Review*, also available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2870029](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2870029) (accessed 24 March 2017).

products.<sup>40</sup> In *Corporate Power and Responsibility*, John Parkinson linked corporate power to market power of this kind and to the consequential bargaining power that it enables some firms to exert over other parties in their value chains including their employees.<sup>41</sup> Parkinson saw market power along with discretionary power over such matters as what to produce, where and how to produce it and whom to employ in producing it as giving large firms extensive social decision-making power that significantly affects the lives and interests of other parties.<sup>42</sup> Parkinson argued that their possession of this power requires justification and supports the view that large firms should be required to be socially responsible and act in the public interest.<sup>43</sup> The ability of firms to use trade marks to brand their products and engage in marketing can contribute to both sources of the power that large firms enjoy and also makes it harder to require them to be socially responsible and act in the public interest.

### **3.1 Brands and Market Power**

Market power tends to be associated with monopolistic power, but a firm has a form of this power whenever it supplies products that are differentiated in a way that prevents consumers from finding exact substitutes on the market.<sup>44</sup> Market power can increase a firm's bargaining power over other parties in a value chain if these parties do not have some similar capacity to resist the pressures of competition or have some other form of countervailing power.<sup>45</sup> Firms can use brands to differentiate their products and engage in marketing to attract specific demand to these products even when they do not deal with consumers directly.<sup>46</sup> The interesting question is why the differentiation achieved through branding products may attract specific demand.

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<sup>40</sup> See n. 7 above.

<sup>41</sup> J.E. Parkinson, n. 3, at 8-21. "A widely accepted understanding of power is that it is the ability of A to cause B to behave in a manner intended by A that B would not have done without A's intervention. Implicit is the idea that A has some form of control over B, or at least a strong bargaining position, that enables A to score a 'victory' over B": *op.cit.* at 8, citing G.K. Wilson, *Business and Politics: A Comparative Introduction* (Chatham House Publishers, 1990) (2<sup>nd</sup> ed.) at 6.

<sup>42</sup> J.E. Parkinson, n. 3, at 10, referring to C. Kaysen, "The Corporation: How Much Power? What Scope?", in E.S. Mason (ed), *The Corporation in Modern Society* (Harvard University Press, 1959) 85-105.

<sup>43</sup> J.E. Parkinson, n. 3, at 10.

<sup>44</sup> E.H. Chamberlin, *The Theory of Monopolistic Competition* (OUP, 1949) (6<sup>th</sup> ed.) at 56-57; E.H. Chamberlin, "Product Heterogeneity and Public Policy", (1950) 40 *American Economic Review* 85-92 at 86. See further I. Lianos, "Brands, Product Differentiation and EU Competition Law" in D.R. Desai, I. Lianos and S. Weber Waller (eds.), *Brands, Competition Law and IP* (Cambridge University Press, 2015) 146-178 at 148-152.

<sup>45</sup> J.K. Galbraith, *American Capitalism: The Concept of Countervailing Power* (Houghton Mifflin, 1952); C.M. Snyder, "Countervailing Power" in S.N. Durlauf and L.E. Blume (eds), *The New Palgrave Dictionary of Economics* (2<sup>nd</sup> ed.) (Palgrave Macmillan, 2008); *The New Palgrave Dictionary of Economics Online* [http://www.dictionaryofeconomics.com/article?id=pde2008\\_C000538&goto=countervailingpower&result\\_number=736](http://www.dictionaryofeconomics.com/article?id=pde2008_C000538&goto=countervailingpower&result_number=736) (accessed 24 March 2017).

<sup>46</sup> On the importance of marketing to the development of upstream firms, see n. 4.

Section 2 has shown how brands differentiate products in two ways and the capacity of a brand to attract specific demand can be analysed accordingly. First, the brand represents a specific commercial origin and establishes commercial responsibility for the branded products.<sup>47</sup> Secondly, branded products are likely to have a particular set of characteristics including a particular level of quality in common and may therefore attract demand from consumers seeking products with this particular combination of characteristics. A brand may in effect define the branded products in terms of their quality and characteristics as well as in terms of their commercial origin.<sup>48</sup> However, the brand does not guarantee the quality and characteristics of the branded products in any objective sense, but merely signifies that they are likely to be consistent with each other and to remain so over time.<sup>49</sup> This likelihood of consistency along with the fact that it is under the exclusive control of one firm can still be valuable to consumers as a basis for acquiring and conveying information about products, for forming expectations and for expressing preferences. It is a basis for communication that has particular advantages over an objective definition of the products in terms of their quality and characteristics. The level of consistency that can be achieved and signified through a brand can be deep and encompass characteristics that would be hard, if not impossible, to express precisely in objective and reproducible terms. Branded products may have a unique character because they reflect a unique body of knowledge, skills and capabilities that a particular firm has built up.<sup>50</sup>

The fact that brand owners are not legally obliged to maintain a constant and consistent level the quality and set of other characteristics for a particular brand of products creates a risk of disappointment for consumers when owners take advantage of the scope this gives them to change product characteristics or to take other action that may affect product quality, for example in order to reduce production costs.<sup>51</sup> However, this flexibility can also be a source of benefit. It gives brand owners the scope to develop and improve their products and to engage in other forms of innovation.<sup>52</sup> Firms can use their

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<sup>47</sup> Advocate General Jacobs recognised the value of the commercial responsibility that a trade mark establishes and signifies in his Opinion in *Hag II*: “although trade marks do not provide any form of legal guarantee of quality ... they do in economic terms provide such a guarantee, which is acted upon daily by consumers”: Case C-10/89 *Cnl Sucal v Hag* [1990] ECR I-3711; [1990] 3 CMLR 571 at 583. Lord Nicholls also recognised its value in his judgment in *Scandecor Development v Scandecor Marketing*: “Thus, in relying on a trade mark consumers rely, not on any legal guarantee of quality, but on the proprietor of a trade mark having an economic interest in maintaining the value of his mark. It is normally contrary to a proprietor’s self-interest to allow the quality of goods sold under his banner to decline”: [2001] ETMR 800 [19].

<sup>48</sup> See n. 30.

<sup>49</sup> *Bostitch Trade Mark* [1963] RPC 183 at 197; Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38].

<sup>50</sup> They may therefore reflect “tacit knowledge” as a unique input: M. Polanyi, *Personal Knowledge: Towards a Post-Critical Philosophy* (Routledge and Kegan Paul, 1962) (corrected edition) at 49-65.

<sup>51</sup> The commercial sanction that the owner faces is the risk that its brand may lose its reputation and its power to attract demand. A classic example of this is the rapid decline of Schlitz beer in the United States in the 1970s and 1980s: see, for example, A. Goldfarb, “Schlitz: Why the Schlitz Hit the Fan”, in V.J. Tremblay and C.H. Tremblay (eds), *Industry and Firm Studies* (4<sup>th</sup> ed) (2007, Routledge) 321-341.

<sup>52</sup> T. da Silva Lopes and M. Casson, n. 4.

brands as a basis for alerting consumers to such changes if they so decide and use the reputation of their brands to provide reassurance against and mitigate the risks of innovation. In the event of problems or setbacks, they can use the trade marks signifying their brands as communication devices to warn consumers about these, to recall products if necessary and to provide the guidance or reassurance that may be required. A good track record concerning responses to setbacks and mistakes can enhance a brand's appeal to consumers,<sup>53</sup> as can building a reputation as an innovator and pioneer.<sup>54</sup> This highlights the importance of a brand's signification of a specific commercial origin. It links products on the market to their overall commercial provenance and in effect turns this into a set of intangible product characteristics. This enables consumers to take account of matters relating to the commercial origin of products into their decision-making if they so desire. These include the owner's reputation as a business actor and its track record for business behaviour and compliance with standards of social responsibility.<sup>55</sup> They may also include the behaviour and standards of firms upstream in the products' value chain and could also include the behaviour and standards of downstream firms as well, though this would depend on the owner's legal ability to control their downstream movement.<sup>56</sup>

The ability of firms to use brands to gain market power through attracting specific demand in the ways described above is not necessarily a cause for concern.<sup>57</sup> The exclusivity, product information and commercial accountability that a brand represents is of potential value to consumers for at least two reasons, both of which reflect that fact that markets in practice tend to diverge from the ideal conditions of a perfectly competitive market.<sup>58</sup> One reason is that firms do not usually supply products (of a particular generic kind) that are homogeneous in terms of their quality and other characteristics, and compete on price alone. Instead, firms tend to supply differentiated products and to compete on the quality and other characteristics of their products as well as on price.<sup>59</sup> Consumers' preferences on these matters and their willingness to trade them against price can differ significantly and they may even value difference for its own sake.<sup>60</sup> The specific demand

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<sup>53</sup> For examples of this, see N.F. Koehn, n. 14 at 321-326.

<sup>54</sup> G. S. Carpenter and K. Nakamoto, "Consumer Preference Formation and Pioneering Advantage", (1989) 26 *Journal of Marketing Research* 285-298.

<sup>55</sup> S. Hilton, "The Social Value of Brands", in R. Clifton and J. Simmons (eds), *Brands and Branding* (The Economist in association with Profile Books, 2003) 47-64 at 55.

<sup>56</sup> A.P. Griffiths, "Trade Marks and Responsible Capitalism", (2012) 43 *International Review of Intellectual Property and Competition Law* 798-824. On the limitations and shortcomings of this capacity, see also M. Chon, "Marks of Rectitude", (2009) 77 *Fordham Law Review* 2311-2351; M. Chon (2014), n. 10; M. Chon (2017), n. 39. The owner's downstream control will be addressed in section 5.

<sup>57</sup> E.H. Chamberlin (1950), n. 44, at 86; I. Lianos, n. 44, at 148 and 152.

<sup>58</sup> On this ideal, see E.H. Chamberlin (1949), n. 44, at 6; R. Van den Bergh and P. Camasasca, *European Competition Law and Economics: A Comparative Perspective* (Sweet & Maxwell, 2006) at 19-23.

<sup>59</sup> L. Abbott, *Quality and Competition: An Essay in Economic Theory* (Columbia University Press, 1955); D.A. Garvin, "Competing on the Eight Dimensions of Quality", (1987) 65 *Harvard Business Review* 101-109.

<sup>60</sup> N. Economides, "The Economics of Trademarks", (1988) 78 *Trademark Reporter* 523-539 at 526-527. On the meaning of "quality" in this respect, see further D.A. Garvin, "What does 'Product Quality' really mean?", (1984) 26 *Sloan Management Review* 25-43; J.M. Juran, *Juran's Quality Control Handbook* (McGraw-Hill,

that a brand attracts may therefore, in part at least, reflect these preferences. The CJEU has ruled that a system of undistorted competition should enable firms to gain and protect a competitive advantage based on the particular quality of their products.<sup>61</sup>

A second reason why a brand may attract specific demand is the information and reassurance that it can provide to consumers about matters of potential concern to them. In contrast to the hypothetical perfectly competitive market, consumers are in practice unlikely to have perfect information about the quality and other characteristics of competing products and about the firms responsible for their presence on the market. Consumers can therefore face substantial costs in mitigating this deficiency, along with any remaining risk of disappointment, in addition to the market price of these products.<sup>62</sup> Brands can help to reduce these “search costs” significantly, and thereby significantly reduce the overall price that consumers have to pay, through facilitating access to information and providing reassurance.<sup>63</sup> The force behind their capacity to do this is not a legal obligation, but the commercial accountability they establish and their owners’ incentive to ensure the reliability of their brands in order to maximise their appeal.<sup>64</sup> This capacity benefits consumers not only through reducing their search costs, but also through increasing the incentive that firms have to supply high quality products and to maintain or improve the quality of their products.<sup>65</sup> In effect, a brand invites consumers to place their trust in it as a substitute for the information they lack and its power to attract specific demand reflects the willingness of consumers to place their trust in it.<sup>66</sup>

The ability to use trade marks to brand their products has therefore given firms in many industries, especially consumer-facing ones, an additional basis on which they can seek to attract specific demand to their products and gain a competitive advantage. A broader set of

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1988) at 2-3; C.A. Reeves and D.A. Bednar, “Defining Quality: Alternatives and Implications”, (1994) 19 *Academy of Management Review* 419-445 at 420-421.

<sup>61</sup> Case C-10/89 *Cnl Sucal v Hag* [1990] ECR I-3711 [13]; Case C-427/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I-3457[43]; Case C-349/95 *Loendersloot (Frits) v Ballantine* [1997] ECR I-6227 [22].

<sup>62</sup> G. Akerlof, “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism”, (1970) 84 *Quarterly Journal of Economics* 488-500; P. Nelson, “Information and Consumer Behaviour”, (1970) 78 *Journal of Political Economy* 311-329; M.R. Darby and E. Karni, “Free Competition and the Optimal Amount of Fraud”, (1973) 16 *Journal of Law and Economics* 67-88; N. Economides, n. 60.

<sup>63</sup> W.M. Landes and R.A. Posner, “Trademark Law: An Economic Perspective”, (1987) 30 *Journal of Law and Economics* 265-309; N. Economides, n. 60; W.M. Landes and R.A. Posner, *The Economic Structure of Intellectual Property Law* (The Belknap Press, 2003) at 174-179; S.L. Dogan and M.A. Lemley, “Trademark and Consumer Search Costs on the Internet”, (2004) 41 *Houston Law Review* 777-838.

<sup>64</sup> On this incentive, see the comments of Advocate General Jacobs and Lord Nicholls cited in n. 47. Its effect has been portrayed as a “self-enforcing” guarantee that a brand’s track record will be maintained: W.M. Landes and R.A. Posner (1987), n. 63, at 270. For empirical studies, see, for example, I. Png and D. Reitman, “Why are Some Products Branded and Others Not?”, (1995) 38 *Journal of Law and Economics* 207-224; S. Wiggins and D. Raboy, “Price Premia to Name Brands: An Empirical Analysis”, (1996) 44 *Journal of Industrial Economics* 377-388.

<sup>65</sup> G. Akerlof, n. 62; W.M. Landes and R.A. Posner (2003), n. 63.

<sup>66</sup> A. Katz, “Beyond Search Costs: The Linguistic and Trust Functions of Trademarks”, (2011) 5 *Brigham Young University Law Review* 1555-1608; A.P. Griffiths, “Trade Marks and Quality Assurance” in G. Dinwoodie (ed), *Methods and Perspectives in Intellectual Property* (Edward Elgar, 2013)) 129-150.

changes in the relationship between the producers and consumers in industrialised economies dating back to the late nineteenth century has increased the importance and potential value to firms of being able to brand their products and use the trade marks signifying them to engage in marketing and provide information and reassurance to consumers.<sup>67</sup> Previously producers had been closer to consumers, selling products directly to them, and consumers could rely on their personal knowledge of a producer's track record or recommendations from people they trusted. This proximity would be the basis of a firm's good reputation and other elements of the goodwill that would enable it to attract specific demand.<sup>68</sup> The industrialisation of production along with developments in transport and communication increased the distance between producers and consumers and eroded this basis for knowledge and trust.<sup>69</sup> This opened up a space in which firms could grow in size and power and engage in new forms of activity to attract demand such as advertising and marketing.<sup>70</sup> But it also required new mechanisms for providing reassurance to consumers, inspiring their trust and building goodwill.<sup>71</sup> Retailers and other intermediaries dealing directly with (or operating closer to) consumers could help to fulfil this role, which would then give them strategic power in the value chains that opened up between producers and consumers.<sup>72</sup>

With the trade mark system in place, producers and other firms operating upstream from consumers could use trade marks to brand their products and give them distinctive identities that were capable of acquiring good reputations and becoming something in which consumers could place their trust. Firms could also use their trade marks to communicate directly with consumers about their branded products and to form the kind of relationships with them that could inspire trust and confidence. Trade marks are an effective basis for communication because of their simplicity and salience as signifiers, which enables them to become distinctive presences in the minds of consumers. Upstream firms could reinforce their control over branded products and protect their ability to vouch for them through packaging them and distributing them in a form that would prevent subsequent interference or at least

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<sup>67</sup> On this importance, see n. 4. See further R. Church and C. Clark, "Product Development of Branded, Packaged Household Goods in Britain, 1870-1914: Colman's, Reckitt's and Lever's", (2001) 2 *Enterprise and Society* 503-542; R. Fitzgerald, "Products, Firms and Consumption: Cadbury and the Development of Marketing, 1900-1939", (2005) 47 *Business History* 511-531; S. Schwarzkopf, "Turning Trade Marks into Brands: How Advertising Agencies Practiced and Conceptualized Branding, 1900-1930", in T. da Silva Lopes and P. Duguid (eds), *Trademarks, Brands and Competitiveness* (Routledge, 2013) (paperback edition) 165-193.

<sup>68</sup> B. Klein and K.B. Leffler, "The Role of Market Forces in Assuring Contractual Performance", (1981) 89 *Journal of Political Economy* 615-641. This is in keeping with Lord Eldon's narrow and locational view of goodwill as "nothing more than the probability that the old customers will resort to the old place": *Crutwell v. Lye* (1810) 17 Ves. Jr. 335 at 346.

<sup>69</sup> R.N. Langlois (2003), n. 12.

<sup>70</sup> G. Austin, "Trademarks and the Burdened Imagination", (2004) 69 *Brooklyn Law Review* 827-922 at 843 and 851-852; Z. Bauman, *Consuming Life* (Polity Press, 2007) at 26.

<sup>71</sup> This development can be seen in Lord Macnaghten's classic definition of "goodwill", which in contrast to Lord Eldon's emphasis on place in *Crutwell v Lye*, n. 68, presents it in more abstract terms as "the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force that brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start": *Commissioners of Inland Revenue v Muller & Co. 's Margarine* [1901] AC 217 at 223-224.

<sup>72</sup> R.N. Langlois (2003), n. 12, at 355-358.

make it difficult.<sup>73</sup> This practice has increased the need for consumers to base their purchasing decisions on branding and to place their trust in a brand rather than to rely on the information they can obtain or discern about the specific products they are proposing to buy. In effect, brands can become proxies for products as objects of demand. The rise of the World Wide Web as a forum for communication, search and transacting has further increased the importance of branding as a basis for search and decision-making.

The ability of firms to use trade marks to brand their products has therefore enabled them to compete on the basis of the capacity of their brands to inspire trust as well as on the price and particular merits of their products. It has enabled firms to do this regardless of their location in a value chain. The market power that firms can gain in this way has social value insofar as it helps to correct market failure, but possession of it can put firms in a strong bargaining position in relation to consumers and other parties. A firm that is in a good position to reach a wide range consumers through marketing activity or otherwise and to vouch for the products it supplies can use this position not only to attract specific demand, but also to strengthen its bargaining power with other parties in its value chain, both upstream and downstream. One reason why the ability to attract specific demand through branding can give a firm significant market power is that it tends to reduce the elasticity of the demand as well as ensuring that it is directed specifically to products that only the firm can supply.<sup>74</sup> A number of factors may contribute to this tendency and not all of them are consistent with the idea of branding as socially beneficial and conducive to competition.<sup>75</sup> A brand's effectiveness at reducing search costs is likely to increase as it becomes familiar to consumers and gains a good reputation in their minds. Some consumers may attach significant value to the reassurance that a familiar brand can provide, especially if they are risk-averse,<sup>76</sup> and this can make it much harder to substitute. This, along with other factors discussed below, can also increase the overall "switching costs" that consumers face in switching their demand to an alternative.<sup>77</sup> Moreover, once a

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<sup>73</sup> Impeding "the possibility of intermediate examination" in this way such that a retailer or other intermediary is "merely the vehicle of transmission of the products to the consumer" increases the legal responsibility of the brand owner to the consumer for the branded products through establishing the proximity that gives rise to a direct duty of care and a basis for product liability: see, for example, *Donoghue v Stevenson* [1932] AC 562-623 at 598 (Lord Atkin) and 615 (Lord Macmillan). See also *MacPherson v Buick Motor Co.* (1916) 217 N.Y. 382, discussed in J. Kahn, n. 26.

<sup>74</sup> On elasticity of demand, see P. Newman, "Elasticity" in S.N. Durlauf and L.E. Blume (eds), *The New Palgrave Dictionary of Economics* (2<sup>nd</sup>. ed.) (Palgrave Macmillan, 2008); *The New Palgrave Dictionary of Economics Online* [http://www.dictionaryofeconomics.com/article?id=pde2008\\_E000058](http://www.dictionaryofeconomics.com/article?id=pde2008_E000058) (accessed 24 March 2017).

<sup>75</sup> See, for example, R. Brown, "Advertising and the Public Interest: Legal Protection of Trade Symbols", (1948) 57 *Yale Law Journal* 1165-1206 at 1169; E.H. Chamberlin (1950), n. 44, at 88; J. Davis and S.M. Maniatis, n. 13; D.S. Gangjee, "Property in Brands", in H.R. Howe and J. Griffiths, *Property Concepts in Intellectual Property Law* (CUP, 2013) 29-59.

<sup>76</sup> On risk aversion, see J. Warner, "Risk Aversion" in S.N. Durlauf and L.E. Blume (eds), *The New Palgrave Dictionary of Economics* (2<sup>nd</sup>. ed.) (Palgrave Macmillan, 2008); *The New Palgrave Dictionary of Economics Online* [http://www.dictionaryofeconomics.com/article?id=pde2008\\_R000155](http://www.dictionaryofeconomics.com/article?id=pde2008_R000155) (accessed 24 March 2017).

<sup>77</sup> G.B. Ramello and F. Silva, "Appropriating Signs and Meaning: The Elusive Economics of Trademark", (2006) 15 *Industrial and Corporate Change* 937-963 at 946-949. On switching costs, see P. Klemperer,



firm has invested in building up the reputation and appeal of a brand, it can confer this appeal on branded products at a relatively low marginal cost, giving it a significant competitive advantage. On the positive side, some economic analysts have characterised the enhanced effectiveness of a familiar brand as a valuable capacity to reduce consumers' "mental search costs" because it speeds the processing of information and facilitates rapid decision-making.<sup>78</sup> A brand with this kind of appeal is much more vulnerable as a target for bad publicity, which should further increase its value as a basis for commercial accountability and source of reassurance.<sup>79</sup>

The argument that the power of brands to attract specific demand is socially beneficial overall also rests on the assumption that consumers are ultimately rational in their decision-making. This assumption has been challenged on the basis that in practice various "irrational" factors may influence the strength of specific demand for branded products sold under certain brands and not just "rational" factors such as their price, quality and other characteristics and the reassurance that the brand provides about these.<sup>80</sup> These "irrational" factors include the salience and cognitive availability of a brand's signifiers<sup>81</sup> and any emotional attachment that some consumers may have to the brand.<sup>82</sup> The potential of a brand to inspire loyalty is a consequence of the distinctive and exclusive personality that it confers on products, which can give it a unique heritage, an image and even associate it with a set of values.<sup>83</sup> This can turn what would otherwise be discrete acts of consumption into a relationship and continuing experience.<sup>84</sup> The scope for using branding to appeal to the emotional desires of consumers is associated with the rise of "consumerism" in the twentieth century.<sup>85</sup> For a wide range of products, consumers have come to place much greater value

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"Switching Costs" in S.N. Durlauf and L.E. Blume (eds), *The New Palgrave Dictionary of Economics* (2<sup>nd</sup> ed.) (Palgrave Macmillan, 2008); *The New Palgrave Dictionary of Economics Online* P. Klemperer, "Switching Costs" [http://www.dictionaryofeconomics.com/article?id=pde2008\\_S000460](http://www.dictionaryofeconomics.com/article?id=pde2008_S000460) (accessed 24 March 2017).

<sup>78</sup> W.M. Landes and R.A. Posner (2003), n. 63, at 161 and 207. For a critical appraisal, see R. Tushnet, "Gone in Sixty Milliseconds: Trademark Law and Cognitive Science", (2008) 86 *Texas Law Review* 507-568.

<sup>79</sup> B. Klein and K.B. Leffler, n. 68, at 629-633; C. Shapiro, "Consumer Information, Product Quality and Seller Reputation", (1982) 13 *Bell Journal of Economics* 20-35; C. Shapiro, "Premiums for High Quality Products as Returns to Reputations", (1983) 98 *Quarterly Journal of Economics* 659-679.

<sup>80</sup> E.H. Chamberlin (1950), n. 44, at 88. The distinction has also been expressed as one between "functional" and "non-functional" demand: H. Leibenstein, "Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand", (1950) 64 *Quarterly Journal of Economics* 183-207; I. Lianos, n. 44, at 157.

<sup>81</sup> A. Ehrenberg, N. Barnard and J. Scriven, "Differentiation or Salience", (1997) 37 *Journal of Advertising Research* 7-14; G.B. Ramello, "What's In a Sign? Trademark Law and Economic Theory" (2006) 20 *Journal of Economic Surveys* 547-565 at 556-559.

<sup>82</sup> J.B. Swann, "An Interdisciplinary Approach to Brand Strength", (2006) 96 *Trademark Reporter* 943-976; L. Moor, *The Rise of Brands* (Berg, 2007) at 37-38; B. Beebe, "Intellectual Property Law and the Sumptuary Code", (2010) 123 *Harvard Law Review* 809-889.

<sup>83</sup> J. Kahn, n. 26, at 30-41; T. da Silva Lopes and M. Casson, n. 4, at 655-656.

<sup>84</sup> For examples of this kind of attachment, see S.M. McClure *et al.*, "Neural Correlates of Behavioural Preferences for Culturally Familiar Drinks" (2004) 44 *Neuron* 379-387; C.L. Hays, *Pop: Truth and Power at the Coca-Cola Company* (Arrow, 2005) at 8-9.

<sup>85</sup> A. Offer, *The Challenge of Affluence: Self-Control and Well-Being in the United States and Britain since 1950* (Oxford University Press, 2006) at 278-286; Z. Bauman, n. 70, at 25-51. For more positive views of consumerism, see C. Campbell, *The Romantic Ethic and the Spirit of Modern Consumerism* (Basil Blackwell, 1987); C. Dyhouse, *Glamour: Women, History, Feminism* (Zed Books, 2011).



on factors that differentiate them such as design, features, novelty and atmospherics as well as their traditional concerns with quality and price.<sup>86</sup> Marketing practitioners have recognised that these factors can act as cues and influence consumers' impressions of functional and material quality.<sup>87</sup> For some products, these factors may be more important to consumers than traditional notions of quality such as durability, reliability and performance.<sup>88</sup> Brands can also increase the emotional appeal of products through connecting them to imagery and associations cultivated through advertising and promotional activity. This enables consumers to use branded products to satisfy emotional desires such as self-expression, showing allegiance to particular values or feeling part of a distinct community of consumers.<sup>89</sup> More prosperous consumers can use certain brands to signal their prosperity and social status,<sup>90</sup> with a brand's exclusivity providing the scarcity and premium pricing that such conspicuous consumption requires.<sup>91</sup>

Brands therefore enable some firms to gain substantial market power based on their power to attract specific demand. Brands perform a valuable role as a marketing resource, basis for communication and source of reassurance to consumers. They also do so through strengthening the incentives that firms have to meet consumers' expectations on matters such as product quality and help to mitigate the risks of product development and other forms of innovation. However, the ability to acquire and control this kind of market power, in effect turning it into a distinct intangible asset, is also responsible for more controversial manifestations of corporate power. It can give firms with an established presence in consumer-facing markets, or that are well-placed to establish one, a strategic advantage in the value chains in which they operate and the scope to shape the direction and organisation of economic activity. This contribution of brands can be seen in the evolution

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<sup>86</sup> R.J. Mosen and A. Downs, "Public Goods and Private Status", (1971) 23 *The Public Interest* 64-77; W. Streeck, n. 33, at 28-36; C. Campbell, "The Curse of the New: How the Accelerating Pursuit of the New is Driving Hyper-Consumption", in K.M. Ekström (ed), *Waste Management and Sustainable Consumption* (Routledge, 2015) 29-51.

<sup>87</sup> J.J. Wheatley and J.S.Y. Chiu, "The Effects of Price, Store Image, and Product and Respondent Characteristics on Perceptions of Quality", (1977) 14 *Journal of Marketing Research* 181-186. The work of Louis Cheskin has been influential in this respect: see, for example, L. Cheskin, *Colors and What They can do* (Liveright Publishing, 1947); L. Cheskin, *How to Predict What People Will Buy* (Liveright Publishing, 1957).

<sup>88</sup> B.W. Tuchman, "The Decline of Quality", *New York Times Magazine*, November 2 1980 at 38-41. This is a tendency that can be seen in the garment industry's "fast fashion" business model: see, for example, M.B.L. Daly, "Buyer Behaviour for Fast Fashion", (2006) 10 *Journal of Fashion Marketing and Management* 329-344; K. Miller, "Hedonic Customer Responses to Fast Fashion and Replicas", (2013) 17 *Journal of Fashion Marketing and Management* 160-174.

<sup>89</sup> D.A. Aaker and E. Joachimsthaler, *Brand Leadership: The Next Level of the Brand Revolution* (The Free Press, 2000) at 48-49; C. Lury, *Brands: The Logos of the Global Economy* (Routledge, 2004) at 24 and 34.

<sup>90</sup> This is associated with the work of Thorstein Veblen, in particular *The Theory of the Leisure Class: An Economic Study of Institutions* (Macmillan, 1899). However, the conspicuous consumption that concerned Veblen was directed at more durable products than the modish and ephemeral products associated with consumerism: Z. Bauman, n. 70, at 30-31.

<sup>91</sup> For contrasting perspectives on the social value of this form of scarcity, see H. Leibenstein, n. 80; G.S. Becker and K.M. Murphy with E. Glaeser, "Social Markets and the Escalation of Quality: The World of Veblen Revisited" in G.S. Becker and K.M. Murphy (eds), *Social Economics: Market Behaviour in a Social Environment* (The Belknap Press, 2001) at 84-104; B. Beebe, n. 82.

of firms like Apple and the power they have over their supply chains.<sup>92</sup> These firms have moved on from their traditional role associated with the model of the industrial “modern corporation”, which would serve the interests of various stakeholder groups in particular communities and nations, into that of being a financially-driven “post-national corporate player”.<sup>93</sup> This contribution can also be seen in the development of the garment (or apparel) industry in the global economy and its adoption of the “fast fashion” business model, in which marketing and retail “brands” enjoy substantial market power and exercise power over flexible global supply chains to produce the products that they market.<sup>94</sup>

This contribution of brands to corporate power has significance both for understanding and analysing its nature and for regulating firms that possess it. The contribution can be related to the flexible nature of trade marks and the brands that they signify not only as identities for marketing products, but also as a platform for organising the production these products. This flexibility gives brand owners significant discretionary power.

### **3.2 Brands and Discretionary Power**

Parkinson saw discretionary power as well as market power as contributing to the overall social decision-making power of large firms and characterised this as “the power to shape ‘the structure of opportunities’ available in society”.<sup>95</sup> He argued that such firms do not respond passively to consumer demand as if they were a “productive apparatus” under the ultimate control of consumers for the satisfaction of their wants, but that consumers are instead “the manipulated subjects of producer domination”.<sup>96</sup> In practice, firms have discretion as to which products they produce and supply and can engage in advertising and other marketing activity to shape and influence consumers’ preferences. In other words, they are active decision-makers rather than passive responders to external forces in the markets in which they operate.

Branding has strengthened this discretionary power in a number of ways, in particular by enabling firms that possess it to command the market place without being (or remaining) producers at all. It has increased the scope that firms have to customise and

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<sup>92</sup> J. Froud et al, n. 8.

<sup>93</sup> J. Froud et al, n. 8, at 47.

<sup>94</sup> See, for example, S. Azmeh and K. Nadvi, n. 12; I.M. Taplin, “Who is to Blame? A Re-examination of Fast Fashion after the 2013 Factory Disaster in Bangladesh”, (2014) 10 *Critical Perspectives on International Business* 72-83; L. Curran and K. Nadvi, “Shifting Trade Preferences and Value Chain Impacts in the Bangladesh Textiles and Garment Industry”, (2015) 8 *Cambridge Journal of Regions, Economy and Society* 459-475.

<sup>95</sup> J.E. Parkinson, n. 3, at 13, citing T. Parsons, *The Social System* (Routledge, 1966) and discussing C. Lindblom, *Politics and Markets* (Basic Books, 1977) at 153.

<sup>96</sup> J.E. Parkinson, n. 3, at 13-15.

differentiate their products and has given them new ways of doing this. Branding has enabled firms to attract demand to a range of products and to stimulate demand through engaging in rapid product development and innovation, as with the garment industry's "fast fashion" business model.<sup>97</sup> In the case of consumer electronics, a study of Apple has noted how "heavy investment in branding and marketing of iPod, iPhone and iPad backs up a 'seduce and capture' retailing of affordable novelties, locking customers into utilities like iTunes software".<sup>98</sup> Branding has also enabled some firms to transform themselves as productive units in terms of the activities in which they engage and the capabilities they require and can exploit.<sup>99</sup> Some firms have used this resource to enter new markets with the benefit of a familiar marketing presence and an established capacity to provide information and reassurance. Some firms have used it to evolve from being manufacturers of products to become firms that specialise in marketing and higher value activities such as design and product development whilst orchestrating the production and supply of the products they market from firms in supply chains.<sup>100</sup> Outsourcing production can be more efficient, especially where the appeal of the branded products rests on rapid upgrading and development. Changes in technology and communication have facilitated this development through enabling firms to exercise greater control over production through indirect mechanisms based on contract. For such firms, production becomes another input they can obtain on competitive markets. Given the bargaining power that brand owners can gain over their suppliers, this can intensify competitive pressures in value chains where firms engaged in production have to compete for demand from downstream firms on their ability to minimise costs and meet tight deadlines.<sup>101</sup>

The discretionary power that brands give their owners can therefore have a profound effect on the structure of opportunities for firms engaged and people employed in production as well as for consumers.<sup>102</sup> The capacity to use brands to attract specific

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<sup>97</sup> See n. 88.

<sup>98</sup> J. Froud et al, n. 8, at 48.

<sup>99</sup> On capabilities and their importance in the development of firms and business organisation, see E. Penrose, *The Theory of the Growth of the Firm* (Basil Blackwell, 1959), republished with an introduction by M. Pitelis (Oxford University Press, 2009); G.B. Richardson, n. 12; D.J. Teece and G. Pisano, "The Dynamic Capabilities of Firms: An Introduction", (1994) 3 *Industrial and Corporate Change* 537-556; R.N. Langlois and N.J. Foss, n. 12; R. N. Langlois, "Modularity in Technology and Organization", (2002) 49 *Journal of Economic Behaviour and Organization* 19-37.

<sup>100</sup> C.F. Sabel and J. Zeitlin, "Neither Modularity nor Relational Contracting: Inter-Firm Collaboration in the New Economy" (2004) 5 *Enterprise & Society* 388-403 at 394-395; S. Berger, "Toward a Third Industrial Divide?" in P. Osterman (ed.), *Economy in Society: Essays in Honour of Michael J. Piore* (MIT Press, 2012) 65-88 at 78.

<sup>101</sup> N. Klein, *No Logo* (Flamingo, 2000) at 201-202. The Rana Plaza disaster in Bangladesh in April 2013 shows the potential dangers of these competitive pressures and the business models that produce them: see All Party Parliamentary Group on Bangladesh, "After Rana Plaza: A Report into the Readymade Garment Industry in Bangladesh", (2013) ("APPG Report"), available at [http://www.annemain.com/files/attachments/APPG\\_Bangladesh\\_Garment\\_Industry\\_Report.pdf](http://www.annemain.com/files/attachments/APPG_Bangladesh_Garment_Industry_Report.pdf) (accessed 24 March 2017); I.M. Taplin, n. 94; Social Europe Report no. 3, "After Rana Plaza (January 2015)", available at <https://www.socialeurope.eu/book/ser-3-after-rana-plaza/> (accessed 24 March 2017).

<sup>102</sup> J. Froud et al, n. 8.

demand and in effect to “pull” consumers to a firm’s products was essential for the emergence of large scale industrialised manufacturing firms in the late nineteenth and early twentieth centuries.<sup>103</sup> Firms of this kind became major business actors in the era of industrial capitalism when the scope for reconfiguring production stages through mechanisation in conjunction with the application of scientific management techniques made large scale production potentially much more efficient than smaller scale operations.<sup>104</sup> Brands gave these firms the ability to reach over intermediaries and market their products directly to consumers who could then seek them out and demand them from retailers.<sup>105</sup> Firms that would otherwise have been remote and impersonal could use this capacity in conjunction with advertising to provide reassurance to, inspire trust in and form relationships with consumers.<sup>106</sup> This provided them with a means of securing the stable demand that ensured their viability as large scale industrialised manufacturers.<sup>107</sup> Subsequently, brands facilitated the evolution of the more flexible and marketing-oriented firms that emerged with the rise of consumerism and market globalisation in the later twentieth century.<sup>108</sup> Even retailers have been able to take advantage of this resource and use their own brands (or “private labels”) to gain strategic power over their supply chains and challenge the power of upstream brand owners.<sup>109</sup> The evolution of Clarks Shoes from a small-scale family firm into a large-scale manufacturer of shoes based in the United Kingdom and then into a global marketing firm that orchestrates the production of its shoes from an extended global supply chain illustrates the impact that this resource has had on the development of firms and on the organisation of economic activity more generally.<sup>110</sup>

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<sup>103</sup> M. Wilkins, n. 4. See also C.A. Corrado and J.X. Hao, n. 15, at 21-23.

<sup>104</sup> R. Murray, “Fordism and Post-Fordism” in S. Hall and M. Jacques, *New Times: The Changing Face of Politics in the 1990s* (Lawrence & Wishart, 1989) 38-53.

<sup>105</sup> H.G. Wells used a much-cited metaphor to portray the impact of this transformation: “even in our childhood there was already a number of vigorous firms reaching their hands over the retail salesman’s shoulder, so to speak, and offering their goods in their own name to the customer”. See H.G. Wells, *The World of William Clissold* (Ernest Benn, 1926) republished (Faber and Faber, 2008) Vol. 2 at 262-263. F.I. Schechter cited this metaphor in a classic article on trade mark law: “The Rational Basis of Trademark Protection”, (1927) 40 *Harvard Law Review* 813-833 at 818.

<sup>106</sup> R. Marchand, n. 26; J. Kahn, n. 26; T. da Silva Lopes and M. Casson, n. 4, at 655-656.

<sup>107</sup> On the need for large-scale producers to secure stable demand to reduce the risks of large-scale production, see also J.K. Galbraith, *The New Industrial State* (2<sup>nd</sup> ed.) (Penguin, 1972), discussed in J.E. Parkinson, n. 3, at 14.

<sup>108</sup> These include the “weightless” firms that Naomi Klein described in *No Logo*: N. Klein, n. 101. See also R. N. Langlois (2003), n 12; C.F. Sabel and J. Zeitlin, n. 100; S. Berger, n. 100.

<sup>109</sup> In 1972, retailers were already being portrayed as “engineers or architects of complex and extended patterns of co-ordinated activity”: G.B Richardson, n. 12, at 885. See generally A. Ezrachi and D. Bernitz (eds.), *Private Labels, Brands and Competition Policy: The Changing Landscape of Retail Competition* (Oxford University Press, 2009).

<sup>110</sup> See the “History and Heritage” section of the Clarks website at [http://www.clarks.co.uk/historyandheritage\\_inthebeginning](http://www.clarks.co.uk/historyandheritage_inthebeginning) (accessed 24 March 2017). On the transformation of Clarks shoes into a global marketing firm, see P. Barkham, “How the Chinese fell in Love with Clarks Shoes”, *The Guardian*, 9 March 2011; available at <https://www.theguardian.com/lifeandstyle/2011/mar/09/chinese-love-clarks-shoes> (accessed 24 March 2017). On the global appeal of Clarks as a brand, see generally A. Fingers, *Clarks in Jamaica* (One Love Books, 2012).

Branding is therefore a facility that has enabled firms to gain significant market power, consequential bargaining power in their value chains and discretionary power over their products and their production along with the power to transform themselves as business actors. This resource has been a major factor in determining the shape and structure of business actors in a world of global markets, globally-recognised brands and global supply chains. Branding has contributed to corporate power in other ways as well. The capacity of artificial legal structures that can be complex and protean to present relatively simple and stable corporate and product identities to the outside world gives them a number of organisational benefits. It has facilitated and encouraged the development of complex structures, including ones that enable firms to partition assets, segregate activities and manage risk and to minimise their exposure to regulation and taxation.<sup>111</sup> It has increased the fluidity and flexibility that they can achieve through using corporate personality as an external and internal structuring device. It is even possible for firms to locate the ownership of the trade marks that support their brands in one entity that can then charge royalties to other entities within the group for using these resources.<sup>112</sup> In all these ways, branding has contributed to the greater focus that many leading firms have come to place on financial activity rather than production.<sup>113</sup>

## **4. Brands as Resources for Attracting and Securing Demand**

The ability of firms to use brands as resources for attracting and securing specific demand depends on their gaining exclusive rights over the signs that signify their brands through registering them as trade marks. This section will consider how these rights shape the demand-side role of brands as sources of corporate power. These rights enable firms to gain control over signs both as a means of branding products by conferring a distinctive and exclusive identity upon them and as a basis for communication about these products. Firms can then use these signs and the brands they signify to engage in marketing and establish distinctive and exclusive marketing presences with consumers. Success at this level is the basis of the market power that leading consumer-facing firms can enjoy and of their strategic power in the value chains in which they operate.

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<sup>111</sup> See for example P. Muchlinski, "Limited Liability and Multinational Enterprises: A Case for Reform?", (2010) 34 *Cambridge Journal of Economics* 915-928.

<sup>112</sup> See for example R. Evans, "Tax Avoidance: How Big Business Cuts its Bills", *The Guardian*, 10 December 2010; available at <https://www.theguardian.com/politics/2010/dec/10/taxandspending-taxavoidance> (accessed 24 March 2017).

<sup>113</sup> J. Froud et al, n. 8, at 47.

It is intrinsic to a trade mark's signification of a specific commercial origin that its owner should be entitled to prevent third parties from using the same sign to market products that are not branded products. This core right should cover any use of the sign that relevant consumers are likely to perceive as signifying the branding of products or as conveying information about their commercial origin. For convenience, this article will refer to use of a sign that has this effect as "proprietary" use of the sign to contrast it with "referential" use of a trade mark as a means of referring to the brand that it signifies or to branded products.<sup>114</sup> However, the demand-side role of a trade mark goes much further than signifying an exclusive identity based on commercial origin. Its power to attract demand may be something that its owner can exploit on different brands of the same kind of product and on different kinds of product through using signs that consumers recognise as signifying an economic connection. The law secures this potential for exploitation through entitling the owner to prevent third parties from using the same and certain similar signs to market products of the same kind as those for which the trade mark is registered, products of similar kinds and in some cases products of different kinds. The law makes this extended protection conditional on a third party's sign having certain effects on the trade mark that are liable to affect not only its legal meaning of exclusivity but also its power to attract demand. In effect, through protecting this power from potential damage or unfair exploitation across a range of markets, trade mark law secures the ability of brand owners to exploit it across a range of markets.

The demand-side role of brands also depends on the law protecting the reliability of trade marks as a basis for communication about branded products or connected brands. This involves protecting an owner's ability to make referential use of a trade mark and certain similar signs and raises some additional issues to those concerned with protecting proprietary use. The communication role of trade marks is of particular importance where brand owners are operating upstream from consumers and branded products pass through retailers and other intermediaries before reaching consumers. Upstream firms can use trade marks to advertise and market their branded products directly to consumers and also, where they signify verbally, to reel in specific demand to these products through enabling consumers to express that specific demand in requests and enquiries. Brand owners need extensive control over how third parties use their trade marks and certain similar signs both in advertising and other marketing activity and in their responses to requests and enquiries from consumers to ensure the overall effectiveness of their trade marks' demand-side role.

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<sup>114</sup> On the use of the terms "proprietary" and "referential" use of a trade mark to make this distinction, see D.W. Barnes, "Trademark Externalities", (2007) 10 *Yale Journal of Law & Technology* 1-44.

## **4.1 Protecting and Securing the Role of Trade Marks as a Means of Branding Products**

In European trade mark law, the Directive specifies three grounds on which a trade mark may be infringed.<sup>115</sup> The first ground applies where a third party is using “in the course of trade” an identical sign “in relation to” products of an identical kind to any of those for which the trade mark has been registered.<sup>116</sup> As well as securing the owner’s exclusive right to make proprietary use of the sign, this ground appears to give the owner a broader monopoly covering any use of the relevant sign in a commercial context relating to the sale, supply or other marketing of products of a kind for which it has been registered.<sup>117</sup> However, the CJEU has narrowed its potential scope by introducing an additional condition, namely that a third party’s use of an identical sign must be “liable to have an adverse effect on one of the functions of the trade mark”.<sup>118</sup> The CJEU at first ruled that this meant “in particular” a trade mark’s “essential function” of guaranteeing the commercial origin of branded products to consumers.<sup>119</sup> This would have covered any use of the relevant sign that relevant consumers would perceive as proprietary,<sup>120</sup> but would only have covered referential use of the trade mark where this was liable to create the impression of an economic connection of some kind with the trade mark.<sup>121</sup>

The CJEU subsequently confirmed that the first ground protects other functions as well, which it identified as “in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising”.<sup>122</sup> This

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<sup>115</sup> Directive, art. 5(1); 2015 Directive, art. 10(2); 1994 Act, s. 10.

<sup>116</sup> Directive, art. 5(1) (a); 2015 Directive, art. 10(2) (a); 1994 Act, s. 10(1).

<sup>117</sup> The preamble to the Directive reinforces this impression by stating that the owner’s protection “should be absolute in the case of identity between the mark and the sign and goods or services”: Directive, recital (11); 2015 Directive, recital (16). The CJEU has ruled that the condition that the third party’s use must be “in the course of trade” requires not only that the third party’s use should take place “in the context of commercial activity with a view to economic advantage and not as a private matter”, but also that the third party should be using the sign in question “in its own commercial communication”: Cases C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417 [51]-[52].

<sup>118</sup> Case C-206/02 *Arsenal FC v Matthew Reed* [2002] ECR I-10273 [51].

<sup>119</sup> Case C-206/02 *Arsenal FC v Matthew Reed* [2002] ECR I-10273 [51]; Case C-245/02 *Anheuser-Busch v Budejovický Budvar* [2004] ECR I-10989 [59]; Case C-48/05 *Adam Opel v Autec* [2007] ECR I-1017 [21]; Case C-17/06 *Céline v Céline* [2007] ECR I-7401 [16]; Case C-62/08 *UDV North America v Brandtraders* [2009] ECR I-1279 [42].

<sup>120</sup> Case C-206/02 *Arsenal FC v Matthew Reed* [2002] ECR I-10273 [56]; Case C-245/02 *Anheuser-Busch v Budejovický Budvar* [2004] ECR I-10989 [60]; Case C-62/08 *UDV North America v Brandtraders* [2009] ECR I-1279 [49]. There is an exception to the owner’s monopoly over proprietary use in cases of “honest concurrent use”: *Budejovický Budvar Narodní v Anheuser-Busch* [2012] EWCA Civ 880.

<sup>121</sup> Case C-533/06 *O2 Holdings v Hutchison 3G* [2008] ECR I-4231 [59]; Case C-46/10 *Viking Gas v Kosan Gas* (C-46/10) [2011] ETMR 58 (WL) [37].

<sup>122</sup> Case C-487/07 *L’Oréal v Bellure* [2009] ECR I-5185 [58]; Case C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417 [79]; Case C-278/08 *Die BergSpechte v Günter Guni* [2010] ECR I-2517 [21]; Case C-558/08 *Portakabin v Primakabin* [2010] ECR I-6963 [29]; Case C-323/09 *Interflora v Marks & Spencer* [2012] Bus LR 1440 [34].

elaboration lacks precision and the CJEU has provided limited guidance.<sup>123</sup> In substance, it enables the owner to use the first ground to protect a brand's attractive power where this is due to more than its exclusivity, as when it has acquired an attractive image. Its main practical effect has been to give brand owners a stronger legal basis for controlling third parties' referential use of their trade marks in comparative advertising and other promotional activity, which will be considered further below.

As well as its exclusivity to one firm, a brand's demand-side role also rests on the distinctiveness of its signifiers, which should enable relevant consumers to differentiate branded products from other products of the same kind "without any possibility of confusion".<sup>124</sup> The second ground of infringement helps to protect the distinctiveness of a trade mark.<sup>125</sup> It extends protection through relaxing the first ground's two requirements of identity to include similarity as well, but applies an overarching condition that a third party's use of such a sign should result in "a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the mark". This ground covers similar signs that consumers are likely to confuse with the trade mark or perceive as a revised version of it along with signs that consumers are likely to perceive as signifying an economic connection with the trade mark and the brand it signifies.<sup>126</sup> It also extends protection into proximate markets, which the CJEU has ruled should reflect the various ways in which consumers may regard products as similar to each other such as market complementarity and not just functional or technological similarity.<sup>127</sup> The CJEU has indicated that a trade mark's protection under this ground should increase in line with the level of recognition it has gained in the minds of consumers.<sup>128</sup> The second ground of infringement therefore secures a brand owner's ability to exploit its attractive power in proximate markets. The scope for exploitation here would usually depend on the potential economies of scope in terms of production, distribution or marketing, though there may be greater scope for exploitation where a brand has an enhanced capacity to provide reassurance or to attract specific demand for some other reason. The owner would still need to have sufficient control over the supply of products connected to the brand to enable it to protect the brand's attractive power from the risk of damage from adverse publicity. However, developments in

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<sup>123</sup> The CJEU has described the advertising function as the use of a trade mark "as a factor in sales promotion or as an instrument of commercial strategy": Cases C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417 [92]; and the investment function as the use of a trade mark "to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty": Case C-323/09 *Interflora v Marks & Spencer* [2012] Bus LR 1440 [60].

<sup>124</sup> Case C-102/77 *Hoffmann-la Roche v Centrafarm* [1978] ECR 1139 [7] ; Case C-10/89 *Cnl Sucal v Hag* [1990] ECR I-3711 [14]; Case C-206/01 *Arsenal FC plc v Matthew Reed* (C-206/01) [2002] ECR I-10273 [48].

<sup>125</sup> The Directive, art. 5(1)(b); 2015 Directive, art. 10(2) (b); 1994 Act, s. 10(2).

<sup>126</sup> Case C-251/95 *Sabel v Puma* [1997] ECR I-6013; Case C-39/97 *Canon v MGM* [1998] ECR I-5507; Case C-342/97 *Lloyd Schuhfabrik v Klijsen Handel* [1999] ECR I-3819; Case C-120/04 *Medion v Thomson Multimedia* [2005] ECR I-8551; Case C-533/06 *O2 Holdings v Hutchison 3G* [2008] ECR I-4231 .

<sup>127</sup> Case C-39/97 *Canon v MGM* [1998] ECR I-5507 [23].

<sup>128</sup> Case C-251/95 *Sabel v Puma* [1997] ECR I-6013 [24]; Case C-39/97 *Canon v MGM* [1998] ECR I-5507 [18]; Case C-342/97 *Lloyd Schuhfabrik v Klijsen Handel* [1999] ECR I-3819 [21].



technology and communication have increased the ability of firms to do this. Firms with brands that have this potential can develop the capabilities that enable them to exercise sufficient control over supply along with cultivating and exploiting the power of their brands to attract demand. Developments on the demand-side and the supply-side have coincided and reinforced each other in this respect.<sup>129</sup>

The third ground of infringement protects a brand's attractive power in more distant markets and thereby secures its owner's ability to exploit it in these markets.<sup>130</sup> In the United Kingdom, the Trade Marks Act 1994 ("the 1994 Act") first extended the scope of a trade mark's protection beyond the range of products that are at least similar to those for which it is registered.<sup>131</sup> This ground protects trade marks that have become familiar to consumers and acquired "a reputation".<sup>132</sup> It covers a third party's use of an identical or similar sign in circumstances that cause consumers encountering it to recall the trade mark and for this "mental linkage" to have at least one of three designated effects on the trade mark.<sup>133</sup> These effects are to cause detriment to the trade mark's "distinctive character" (its prominence and singularity as a sign) or to its "repute" (its appeal to consumers based on the reputation and image it has acquired) or to take "unfair advantage" of these attributes without the third party having a good reason or "due cause" for using the sign in question.<sup>134</sup>

In substance, the third ground protects the enhanced effectiveness that a trade mark may gain both as a means of branding products and as a promotional and communication device through gaining prominence in the minds of consumers together with a good reputation and an attractive image. Its prominence and enhanced effectiveness can make the trade mark vulnerable to a much wider range of damage and unfair exploitation. The third ground also helps to secure a brand owner's ability to exploit its familiarity and attractive power in a much wider range of markets and provides legal support for the marketing practices that enable firms to do this. As noted above, developments in technology have increased the scope for a brand owner to exploit its power

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<sup>129</sup> W. Streeck, n. 33, at 28-36.

<sup>130</sup> The Directive, art. 5(2); 2015 Directive, art. 10(2) (c); 1994 Act, s. 10(3). Despite the apparent limitation of this ground to products that are "not similar" to those for which the trade mark has been registered, the CJEU held that it covers all kinds of products: Case C-292/00 *Davidoff & Cie v Gofkid* [2003] ECR I-389 [24]. The specification in the 2015 Directive makes this clear.

<sup>131</sup> The Directive gave member states the option whether to extend protection to include this ground, but most of them have done so. The 2015 Directive has made it mandatory.

<sup>132</sup> The CJEU has ruled that to have a "reputation" the trade mark must be known by "a significant part of the public concerned by the products or services covered by that trade mark" and "throughout at least a substantial part" of the relevant territory: Case C-375/97 *General Motors v Yplon* [1999] ECR I-5421 [22]-[26].

<sup>133</sup> Case C-408/01 *Adidas-Salomon v Fitnessworld* [2003] ECR I-12537 [29]; Case C-252/07 *Intel v CPM* [2008] ECR I-8823 [63].

<sup>134</sup> Case C-252/07 *Intel v CPM* [2008] ECR I-8823; Case C-487/07 *L'Oréal v Bellure* [2009] ECR I-5185; Case C-323/09 *Interflora v Marks & Spencer* [2012] Bus LR 1440; Case C-252/12 *Specsavers v Asda* [2013] Bus LR 1277.

to provide reassurance and attract specific demand in a much wider range of markets than would have been feasible previously.<sup>135</sup>

## ***4.2 Protecting and Securing a Trade Mark's Capacity as a Communication Device***

Once a sign is registered as a trade mark, it acquires a special meaning in relation to products of a kind for which it is registered as the signifier of a specific commercial origin.<sup>136</sup> Its owner, consumers and other third parties should therefore be able to use it as a reliable reference point to convey and acquire information about branded products, including information about their commercial origin and provenance. However, its owner has an interest in seeking more extensive control both to protect the attractive power of the brand from potential damage and, less justifiably, to insulate branded products from effective competition.

### ***4.2.1 Control over Third Party Referential Use of a Trade Mark in Advertising and Promotional Activity***

To ensure a trade mark's effectiveness both as a branding device and as a basis for communication, its owner should be entitled to prevent third parties from using it in a way that is inconsistent with its legal meaning or implies an economic connection with the brand that it signifies, especially when they are selling, supplying or marketing products of a kind for which the owner has registered it. This is necessary to ensure that the owner derives full benefit from the brand's power to attract demand and has full control over the supply of products that may affect that power. The owner may seek to extend its control further to protect the prominence that a trade mark signifying the brand has gained in the minds of consumers and the image and associations that it may have there. A third party's referential use of a trade mark or a similar sign in advertising or promotional activity may affect these even though it does not mislead consumers about the commercial origin of the third party's products.

The interest of brand owners in extending their control over third parties' referential use of trade marks and similar signs in advertising and promotional activity has to be weighed against the third parties' need to use them in this way to compete effectively and especially to

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<sup>135</sup> See above at n. 129.

<sup>136</sup> It is therefore necessary to restrict the signs that a firm can appropriate for this purpose and in particular to prevent it from registering a sign that already has a meaning relating to products of the relevant kind unless and until the firm succeeds in changing its meaning in the minds of consumers through using it as a trade mark in practice: see n. 23.

challenge brands that are market leaders. Referential use in comparative advertising can enable third parties to alert consumers to alternatives and to seek to persuade them to switch their demand.<sup>137</sup> In the United Kingdom, referential use of a trade mark in advertising constituted infringement until the 1994 Act introduced a defence giving third parties extensive freedom to do this.<sup>138</sup> The CJEU has subsequently ruled that the amended Directive on Misleading and Comparative Advertising (“MCAD”)<sup>139</sup> now delineates the scope of this defence and determines the extent of the owner’s control.<sup>140</sup> For the owner to be able to exercise this control and enforce the terms of the MCAD directly against a third party, it must first establish that the third party’s use of its trade mark or a similar sign in comparative advertising is infringement. In this regard, the CJEU has ruled that a third party’s referential use of a trade mark in advertising or promoting products of a kind for which it is registered infringes it under the first ground even when this does not mislead consumers about the commercial origin of the products that the third party is promoting. The CJEU has held that this is liable to affect the additional protected functions that it has identified.<sup>141</sup> The third party therefore has to rely on a defence, which in the case of comparative advertising means showing that its advertisement complies with all the conditions of the MCAD. This gives the owner a direct legal basis for enforcing compliance with the MCAD. The MCAD does not just preclude referential use of a trade mark in a way that is liable to mislead consumers about commercial origin, but also use that may threaten a trade mark’s attractive power in some other way.<sup>142</sup>

For other kinds of advertising, there are defences under the Directive that entitle third parties to use trade marks or similar signs to convey descriptive information about their products, including information for which referential use of a trade mark is necessary.<sup>143</sup> These defences are subject to a proviso that the third party must be using the

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<sup>137</sup> Article 2(a) of Directive 2006/114/EC concerning misleading and comparative advertising, which consolidated the advertising Directive 84/450/EC as amended by Directive 97/55/EC, (“the MCAD”) defines comparative advertising as “any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor”: Case C-112/99 *Toshiba Europe v Katun* [2001] ECR I-7945; Case C-44/01 *Pippig Augenoptik v Hartlauer* [2003] ECR I-3095.

<sup>138</sup> 1994 Act, s. 10(6). Section 4 of the Trade Marks Act 1938 had provided that infringement could occur where a third party used a “mark” in a way that was likely to be perceived “as being used as a trade mark” or “as importing a reference to some person having the right ... to use the trade mark”. See *Bismag v Amblins* [1940] Ch. 667 (CA).

<sup>139</sup> See n. 137.

<sup>140</sup> Case C-487/07 *L’Oréal v Bellure* [2009] ECR I-5185; Case C-159/09 *Lidl v Vierzon* [2011] 2 CMLR 10 (WL). Section 10(6) of the 1994 Act has in effect become obsolete. The 2015 Directive now includes “using the sign in comparative advertising in a manner that is contrary to Directive 2006/114/EC” in its list of uses of a sign that may infringe a trade mark: the 2015 Directive, art. 10(3).

<sup>141</sup> Case C-487/07 *L’Oréal v Bellure* [2009] ECR I-5185 [63].

<sup>142</sup> Article 4 of the MCAD lists the conditions, which include: “(d) it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor ... (f) it does not take unfair advantage of the reputation of a trade mark, trade name, or other distinguishing marks of a competitor or of the designation of origin of competing products; and (g) it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name”.

<sup>143</sup> Directive, art. 6(1); 2015 Directive, art. 14(1) & (2); 1994 Act, s. 11(2) and (3). See, for example, *Bravado Merchandising Services v Mainstream Publishing* [1996] FSR 205 (CSOH).

sign in accordance with “honest practices in industrial or commercial matters”, which the CJEU has characterised as expressing “a duty to act fairly in relation to the legitimate interests of the trade mark owner”.<sup>144</sup> A third party may violate this condition not only where its advertisement creates a false impression of an economic connection, but also in other circumstances that may affect the trade mark’s power to attract demand.<sup>145</sup> Here as well, the CJEU has been willing to extend the owner’s control to protect the image and associations that a brand may acquire as well as its exclusivity and in the case of luxury branded products to treat this as contributing to their overall quality.<sup>146</sup>

When a third party uses a sign similar to a trade mark to refer to a brand in comparative or other advertising or when a third party is promoting products that are not of the same kind as any for which the trade mark is registered, the owner must rely on the second or third grounds of infringement.<sup>147</sup> If the owner can establish the requirements for one of these grounds, the third party is *ipso facto* unlikely to be able to satisfy the conditions of a defence so that the owner enjoys extensive control over referential use in these circumstances as well. The third ground can help to protect a trade mark’s value as a communication device more generally where it is both distinctive and familiar to consumers. As noted above, this ground can enable the owner to prevent the use of signs that would damage or unfairly exploit a trade mark’s prominence in the minds of consumers, its ability to prompt immediate recognition and its attractive power in a wide range of contexts. This further reinforces the value of brands as marketing resources that their owners can exploit across a wide range of consumer-facing markets.

#### **4.2.2 Control over Third Party Responses to Consumers’ Referential Use of a Trade Mark**

A trade mark that signifies verbally also gives consumers a reference point that they can use in searches, requests and enquiries. For it to be effective at this role, third parties selling or supplying products of the relevant kind must respect this meaning in their responses. This ensures that specific demand is properly directed to branded products and that the owner derives full benefit from the brand’s power to attract specific demand.<sup>148</sup> It also helps to

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<sup>144</sup> Case C-63/97 *BMW v Deenik* [1999] ECR I-905 [61]; Case C-100/02 *Gerolsteiner Brunnen v Putsch* [2004] ECR I-691 [24]; Case C-228/03 *Gillette v LA-Laboratories* [2005] ECR I-2337 [41].

<sup>145</sup> The third party’s use will violate the condition if “it affects the value of the trade mark by taking unfair advantage of its distinctive character or repute” or “it entails the discrediting or denigration of that mark” or “where the third party presents its product as an imitation or replica of the trade mark bearing the trade mark of which it is not the owner”: Case C-228/03 *Gillette v LA-Laboratories* [2005] ETMR 825 [49].

<sup>146</sup> Case C-337/95 *Parfums Christian Dior v Evora* [1997] ECR I-6013 [45]; Case C-59/08 *Copad v Christian Dior Couture* [2009] ECR I-3421 [24]-[26].

<sup>147</sup> Case C-533/06 *O2 Holdings v Hutchison 3G* [2008] ECR I-4231.

<sup>148</sup> Evershed J said that “a great hardship and a great injustice” might be done if trade mark owners could not require third party intermediaries to respect the specific meaning of their trade marks since the owners “would have, ultimately, no means whatever of securing any sale for their products”: *Sales Affiliates v Le Jean* [1947] Ch 295 (HC) at 299.

prevent the trade mark from becoming a generic term for products of the relevant kind.<sup>149</sup> Trade mark law treats a third party's response to a request or enquiry in which a trade mark features as including an implicit representation to the consumer in which the trade mark also features.<sup>150</sup> A third party who responds to such a request or enquiry by selling or supplying a product that is not a branded product without any clarification or explanation thereby infringes the trade mark.<sup>151</sup> Subject to this, a third party is free to clarify a consumer's actual intention or to alert consumers to alternatives to branded products and to seek to persuade them to switch their demand.<sup>152</sup> The qualified freedom that this gives third parties provides some mitigation of the market power that a firm may enjoy when its brand has become a familiar and salient presence in consumers' minds and consumers are liable to use a trade mark signifying it as a convenient reference point without necessarily requiring that brand. Nevertheless, this salience may still give an established brand a significant advantage over less familiar competitors.<sup>153</sup>

The CJEU has adopted a similar approach to regulating third parties' use of trade marks and similar signs for keyword advertising and for determining the extent of brand owners' control over such use.<sup>154</sup> Thus, third parties can arrange with internet service providers ("ISP") for the use of certain words and word combinations in on-line searches to trigger advertisements or sponsored links for products that the third parties are selling, supplying or marketing.<sup>155</sup> Again, it is potential consumers who initiate the use of the relevant signs, but here third parties have prearranged automated responses with the intention that consumers should notice and investigate them.<sup>156</sup> In this way, trade marks or similar signs form part of the overall communication that may occur between a third party and an on-line consumer with the third party's prearranged response involving an implicit

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<sup>149</sup> The Directive provides that a trade mark shall be liable to revocation if "in consequence of acts or inactivity of the proprietor, it has become the common name in the trade for a product or service in which it is registered": Directive, art. 12(2)(a); 2015 Directive, art. 20(a); 1994 Act, s. 46(1)(c). The CJEU has ruled that this applies where both sellers of the product in question and end-users perceive the sign as a name or indicator of the generic product rather than signifying a specific brand: Case C-371/02 *Björnekulla v Procordia* [2004] ECR I-5971; Case C-409/12 *Backaldrin Österreich* [2014] Bus LR 320.

<sup>150</sup> The courts have also done this where a sign has acquired origin-specific meaning as a trade mark through use and the owner is relying on the tort of passing off: *Havana Cigar v Oddenino* [1922] 2 Ch 243 (HC) at 251; [1923] 1 Ch 179 (CA) at 194 and 202.

<sup>151</sup> *Havana Cigar v Oddenino* [1923] 1 Ch 179 (CA); *Sales Affiliates v Le Jean* [1947] Ch 295 (HC); *Premier Luggage & Bags v Premier Company* [2002] EWCA Civ 387; [2003] FSR 69.

<sup>152</sup> *Havana Cigar v Oddenino* [1922] 2 Ch 243 (HC) at 251; [1923] 1 Ch 179 (CA) at 194-195 and 202. In this case, the courts awarded an injunction against the third party imposing an obligation along these lines.

<sup>153</sup> See, for example, the advantage that Coca-Cola enjoys through its ownership of the trade mark "Coke": "Mixing with Coke Over Trademarks is Always a Fizzle: Coca-Cola Adds a Little Life in Court to Those Failing to Serve the Real Thing", *Wall Street Journal*, March 9, 1978 at 4, noted in R. Cooter and T. Ulen, *Law & Economics* (5<sup>th</sup> ed.) (Pearson Education, 2008) at 142.

<sup>154</sup> Case C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417; Case C-278/08 *Die BergSpechte v Günter Guni* [2010] ECR I-2517; Case C-558/08 *Portakabin v Primakabin* [2010] ECR I-6963; Case C-323/09 *Interflora v Marks & Spencer* [2012] Bus LR 1440.

<sup>155</sup> S. Bechtold and C. Tucker, "Trademarks, Triggers and Online Search", (2014) 11 *Journal of Empirical Legal Studies* 718-750.

<sup>156</sup> Cases C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417 [67]-[68].

representation to the consumer in which the sign features.<sup>157</sup> The CJEU has held that where a third party uses a trade mark as a keyword and is marketing products of a kind for which it is registered, the third party infringes the trade mark under the first ground if its advertising is not clear enough to enable a significant proportion of on-line consumers to ascertain without difficulty that its products are not branded products and do not have the same or an economically-linked commercial origin.<sup>158</sup> Even though the advertisement may not suggest that this is the case, the third party still infringes under the first ground if it is sufficiently vague about the commercial origin of the advertised products that on-line consumers are unable to determine this.<sup>159</sup> The owner may also be able to use the first ground in these circumstances to protect other aspects of the brand's power to attract demand such as an image that exerts emotional appeal.<sup>160</sup> Subject to this, a third party is free to seek to shift demand away from branded products.<sup>161</sup> Where a third party uses a similar sign as a keyword or where it is marketing products that are of a different kind from those for which the trade mark is registered, the extent of the owner's control will depend on the other two grounds of infringement and be qualified by the need to satisfy the conditions of those grounds.

## 5. Brands as Resources for Controlling the Supply of Branded Products

As well as providing their owners with an exclusive means of branding products and turning them into the potential objects of specific demand, trade marks give their owners exclusive control over the supply of branded products that can legitimately satisfy that demand. The owner's exclusive control over supply and the discretion that it has as to how it organises that supply are together the basis of the role of brands in business organisation and organisational innovation. They are also the basis of the two areas of discretionary power that can increase the overall corporate power that the owner enjoys.

A trade mark signifies that it is under the control of one firm (or greater undertaking)<sup>162</sup> and that this firm has authorised the marketing of the specific products that the trade mark

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<sup>157</sup> Cases C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417 [72], citing Case C-17/06 *Céline v Céline* [2007] ECR I-7401 at [23].

<sup>158</sup> Cases C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417 [83]-[84]; Case C-558/08 *Portakabin v Primakabin* [2010] ECR I-6963 [34]; Case C-323/09 *Interflora v Marks & Spencer* [2012] Bus LR 1440 [44].

<sup>159</sup> Cases C-236/08-238/08 *Google France v Louis Vuitton* [2010] ECR I-2417 [89]-[90]; Case C-558/08 *Portakabin v Primakabin* [2010] ECR I-6963 [35]; Case C-323/09 *Interflora v Marks & Spencer* [2012] Bus LR 1440 [45].

<sup>160</sup> *Cosmetic Warriors v Amazon* [2014] EWHC 181 (Ch); [2014] FSR 710.

<sup>161</sup> Case C-323/09 *Interflora v Marks & Spencer* [2012] Bus LR 1440 [64].

<sup>162</sup> On the meaning of "one undertaking" in this context, see n. 1.

designates as branded products.<sup>163</sup> It is the owner's due authorisation of them as branded products that distinguishes these products from all other products of the same kind, including products made to exactly the same specification and which are exactly the same as branded products in every respect apart from their lack of due authorisation.<sup>164</sup> The owner's exclusive right to authorise products as branded products gives it the exclusive right to determine which products of the relevant kind can be marketed and treated as branded products and secures the owner's exclusive control over their supply.<sup>165</sup> It also ensures that branding products amounts to the additional of a valuable intangible input that only a brand owner can supply. The owner's discretion as to how it arranges the production or procurement of the products that it brands enables the management of this input to be separated from production within a value chain and organised according to its own economies of scale and scope.

It has already been noted how, in early industrialised economies, the ability of manufacturing firms in consumer-facing industries to use branding to engage in marketing and attract specific demand was an important factor in their success.<sup>166</sup> This was a key feature of the archetypal "modern corporation" that could be a major player in national or local economies.<sup>167</sup> Branding has contributed to a profound shift in the activities of many leading consumer-facing firms.

## 5.1 Exclusive Control over Supply

A trade mark signifies not only that branded products have a specific commercial origin, but also that its owner is in a position to control and vouch for their quality and other characteristics.<sup>168</sup> A brand may therefore differentiate products on this basis as well.<sup>169</sup> The owner's control over supply enables it to control the track record of the branded products,

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<sup>163</sup> *Major Bros. v Franklin* [1908] 1 KB 712 (HC); Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39].

<sup>164</sup> "[I]t is not enough that they should have been manufactured to Primark's specification: they must have been adopted by Primark as its goods. Without such adoption, Primark cannot be taken to be saying either that it is the source of the goods or that it accepts responsibility for their quality": *Primark v Lollypop Clothing* [2001] FSR 637 (HC) [11] (Mr John Martin QC sitting as a Deputy High Court Judge).

<sup>165</sup> Case C-102/77 *Hoffmann-la Roche v Centrafarm* [1978] ECR 1139 [7]; Case C-10/89 *Cnl Sucal v Hag* [1990] ECR I-3711 [13]; Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39].

<sup>166</sup> See n. 67.

<sup>167</sup> M. Wilkins, n. 4. On the demise of "national champions" of this kind, see also J. Froud et al, n. 8.

<sup>168</sup> The owner's position of ongoing control over the supply of branded products is usually a corollary of its exclusive right to authorise products as branded products, but occasionally it has to be addressed separately. In a case concerning the free movement of branded goods within the European Union, the CJEU had to decide when two firms operating in different member states and supplying products of the same kind under the same trade mark should be treated as constituting one undertaking and their respective branded products treated as having the same commercial origin. It ruled that whether or not they do so depends on whether or not they are connected in such a way as to establish a single point of ongoing control over the condition and quality of their respective products: Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39]. See also *Aristoc v Rysta* [1945] AC 68 (HL) at 101-102.

<sup>169</sup> *Andrew (John) v Kuehnrich* (1913) 30 RPC 677(CA). See T. da Silva Lopes and M. Casson, n.4, at 655.

which underlies the brand's reputation and is a major factor in its power to attract specific demand. It enables the owner to ensure that branded products are consistent with each other and, if it so desires, consistent to a degree and with characteristics that only unitary control over their production can achieve.<sup>170</sup> The owner's control over supply therefore underpins the trade mark's value as a basis for communication about branded products.<sup>171</sup> This control is secured by the owner's right to prohibit the use of a trade mark signifying the brand for identifying or marketing products of the relevant kind that it has not authorised as branded products on the basis that this amounts to infringement of the trade mark.<sup>172</sup> It may sometimes be necessary to inquire into the circumstances concerning the marketing of certain products to ascertain whether or not the owner has authorised or adopted them as branded products and accepted commercial responsibility for them accordingly.<sup>173</sup> It is also possible for the owner to exercise its exclusive right through a licensing agreement.<sup>174</sup> With licensing, the owner has the necessary position of ongoing control over the supply of branded products through its ability to police and enforce those terms of the licensing agreement that concern the quality and other characteristics of the products that the licensee is authorised to supply as branded products, with the Directive providing that breach of any such term can negate the owner's authorisation and render the products illegitimate.<sup>175</sup>

The owner's control over supply gives it the opportunity to earn a return from the brand's power to attract demand on every occasion when branded products are first placed on the market with the benefit of this power.<sup>176</sup> This ensures that the owner has an economic interest in every product that can affect the track record of the brand as well as having control over that track record. It is this alignment of interest and control that puts economic force behind the "guarantee" that a brand and its trade mark signifiers is said to give consumers concerning the quality and other characteristics of branded products. The owner's control over supply also gives it discretion to vary the quality and other characteristics of the branded products, which is the main shortcoming of that guarantee. However, Whilst this discretion presents an obvious risk of disappointment to consumers, it has significant positive

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<sup>170</sup> See above at n. 50.

<sup>171</sup> Case C-10/89 *Cnl Sucal v Hag* [1990] ECR I-3711 [13]; Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39].

<sup>172</sup> *Major Bros. v Franklin* [1908] 1 KB 712 (HC); Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39].

<sup>173</sup> *Primark v Lollypop Clothing* [2001] FSR 637 (HC) at [11].

<sup>174</sup> Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39].

<sup>175</sup> Directive, art. 8; 2015 Directive, art. 25(2). The article states that the owner may invoke "the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to ... (c) the scope of the goods or services for which the licence is granted ... or (e) the quality of the goods manufactured or of the services provided by the licensee". The CJEU has ruled that this provision can cover intangible product quality and that in some circumstances the owner can prohibit marketing (as branded products) after breach of a term in the licence that relates to a particular image or set of associations for the trade mark such as restrictions on the kind of distribution outlets through which marked products can be sold or on certain forms of advertising; Case C-59/08 *Copad v Christian Dior Couture* [2009] ECR I-3421 [22]-[24]; [27]-[37]. See Advocate General Kokott's discussion of this point in her Opinion to the CJEU at [AG30]-[AG37].

<sup>176</sup> Case C-46/10 *Viking Gas v Kosan Gas* [2011] ETMR 58 (WL) [31]-[32].



implications. It gives the owner scope to engage in product development and other forms of innovation, with the trade mark's reputation mitigating some of the risks that innovation presents to consumers. As section 3 has shown, this discretionary power is an important aspect of the contribution that brands can make to corporate power.

An important supply-side feature of European trade mark law is that a brand owner's exclusive right to authorise the first marketing of branded products has a territorial dimension. This applies where the branded products are goods and can therefore be sold on or further marketed in some other way. The owner has the right to authorise the first marketing of branded goods within the European Economic Area ("EEA") even for goods that it has already authorised for marketing as branded goods outside the EEA.<sup>177</sup> This territorial dimension is achieved through a combination of the rule that the owner's supply-side rights are "exhausted" for goods once it has authorised them as branded products and the strict limitation of this rule to the boundaries of the single market. The exhaustion rule, which gives effect to the principle of the free movement of goods,<sup>178</sup> is designed to combat the territorial partitioning of markets for branded goods within the EEA and to promote "intra-brand" or "downstream" competition.<sup>179</sup> It therefore sets limits on an owner's rights to prohibit third parties from using a trade mark signifying its brand as a product identifier for the further marketing of branded products within the EEA and as a means of advertising and promoting the further marketing of such products and from using these products to satisfy demand for branded products.<sup>180</sup>

The exhaustion of their supply-side control after first marketing in the EEA is a significant limitation on the scope that firms have to use their brands to gain and exploit excessive market power through promoting downstream and inhibiting territorial price discrimination within the EEA. On the other hand, the limitation of this to first marketing in the EEA means that brand owners can insulate themselves from downstream competition at the international level, which gives them scope to engage in territorial price discrimination at

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<sup>177</sup> Case C-355/96 *Silhouette v Hartlauer* [1998] ECR I-4799; Case C-173/98 *Sebago v GB-Unic* [1999] ECR I-4103; Joined Cases C-414/99-C-416/99 *Zino Davidoff v A & G Imports* [2001] ECR I-8691. See further A.G. Chronopoulos and S.M. Maniatis, "Trademark Exhaustion and its Interface with EU Competition Law", in I. Calboli and E. Lee (eds), *Research Handbook on Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar, 2016) at 343-366.

<sup>178</sup> Article 34 of the Treaty on the Functioning of the European Union (or "TFEU") prohibits any legal restrictions on the movement of goods between member states for further marketing unless the restrictions can be justified on grounds of the protection of "industrial and commercial property".

<sup>179</sup> On the goal of promoting downstream competition, see Case C-46/10 *Viking Gas v Kosan Gas* (C-46/10) [2011] ETMR 58 (WL) [34]-[35]. Price discrimination occurs when a firm is able to charge different prices for the same or very similar products to different consumers or groups of consumers: see, for example, R. Van den Bergh and P. Camasasca, *European Competition Law and Economics: A Comparative Perspective* (Sweet & Maxwell, 2006) at 254-257. On territorial price discrimination in this context, see K.E. Maskus, "Economic Perspectives on Exhaustion and Parallel Imports", in I. Calboli and E. Lee (eds), *Research Handbook on Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar, 2016) 106-124 at 112-113. See further R. Schmalensee, "Output and Welfare Implications of Monopolistic Third-Degree Price Discrimination", (1981) 71 *American Economic Review* 242-247.

<sup>180</sup> Directive, art. 7; 2015 Directive, art. 15; 1994 Act, s. 12.

that level.<sup>181</sup> If the United Kingdom leaves the EEA at the same time as it leaves the European Union, which seems likely at the time of writing, then it will be able to restrict this through adopting a rule of international exhaustion.

Even in the case of the further marketing of branded goods within the EEA, owners retain some continuing control over the use of their trade marks by third parties such as parallel importers. This in effect gives them some continuing control over the products that can legitimately satisfy specific demand for branded products, which is necessary to ensure that owners can continue to vouch for branded products and prevent the kind of interference with them that could undermine their ability to do so.<sup>182</sup> The CJEU has limited the owner's continuing control in such cases by treating the owner's rights as exhausted despite unauthorised interference where a third party can show that certain conditions are satisfied.<sup>183</sup> The owner's control is then limited to policing and enforcing these conditions and is secured through an overriding condition that requires a third party to give the owner prior notice in writing.<sup>184</sup> Prior notification gives the owner the opportunity to verify and if necessary enforce a third party's compliance with the other conditions, which are designed to protect the brand's attractive power.<sup>185</sup> The CJEU has taken a broad view of what may contribute to this attractive power and recognised that it may reflect a prestigious image that confers an intangible form of quality on the branded products.<sup>186</sup>

## **5.2 Discretion over the Organisation of Supply**

Whilst trade mark law requires a brand owner to be in a position of ongoing control over the products that it authorises as branded products, it does not prescribe or limit the basis on which the owner may have this control.<sup>187</sup> This allows for a wide range of organisational

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<sup>181</sup> On the "national", "regional" and "international" variants of rules of exhaustion in this context, see K.E. Maskus, "Parallel Imports", (2000) 23 *World Economy* 1269-1284 at 1270; K. Saggi, "Regional Exhaustion of Intellectual Property", (2014) 10 *International Journal of Economic Theory* 125-137 at 125-126; K.E. Maskus (2016), n. 179, at 106-107.

<sup>182</sup> The Directive, art. 7; 2015 Directive, art. 15. The CJEU has ruled that the circumstances in which this is the case are not limited to activity that may affect the functional or material quality of the marked products: Case C-46/10 *Viking Gas v Kosan Gas* (C-46/10) [2011] ETMR 58 (WL) [36].

<sup>183</sup> Case C-427/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I-3457; Case C-348/04 *Boehringer Ingelheim v Swingward* (No. 2) [2007] ECR-3391; Case C-276/05 *Wellcome v Paranova* [2008] ECR I-10479; Cases C-400/09 & C-207/10 *Orifarm v Merck* [2011] CMLR 10 (WL). Similar conditions apply where the third party needs to rebrand goods for further marketing in a different territory within the EEA: Case C-379/97 *Pharmacia & Upjohn v Paranova* [1999] ECR I-6927.

<sup>184</sup> The CJEU has ruled that failure to give this notice renders the goods "spurious" and equivalent to unauthorised products: Case C-348/04 *Boehringer Ingelheim v Swingward* (No. 2) [2007] ECR-3391 [64].

<sup>185</sup> Case C-102/77 *Hoffmann-la Roche v Centrafarm* [1978] ECR 1139 [11]; Cases C-400/09 & C-207/10 *Orifarm v Merck* [2011] CMLR 10 (WL) [26].

<sup>186</sup> Case C-337/95 *Parfums Christian Dior v Evora* [1997] ECR I-6013; Case C-59/08 *Copad v Christian Dior Couture* [2009] ECR I-3421; Case C-46/10 *Viking Gas v Kosan Gas* (C-46/10) [2011] ETMR 58 (WL).

<sup>187</sup> The commercial origin that a trade mark guarantees "is not defined by reference to the manufacturer but by reference to the point of control of manufacture": Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [37].

possibilities. The owner can, for example, make use of contractual mechanisms such as sub-contracting and licensing.<sup>188</sup> This supply-side flexibility has ensured that firms at various stages along a value chain can use trade marks to brand their products and attract specific demand, thereby increasing their bargaining power within the chain. It also gives firms greater scope to reorganise their production arrangements by outsourcing some or all of this activity.<sup>189</sup> This has enabled the organisation and orchestration of production to develop as a distinct form of economic activity with its own set of capabilities.

Brands have therefore enabled firms to develop and exploit lucrative marketing platforms based on their effectiveness and success at attracting specific demand. Changes in media and communication have enabled many products to be marketed on a much wider or even global scale. This has increased the scope for achieving economies of scale and scope at the level of output and marketing, but also the likely divergence from the economies of production. This increases the potential benefits of disaggregating and outsourcing production. As noted above, many consumer-facing firms have adopted business models that involve focusing their resources and capabilities on higher-value activities such as product development, design and marketing whilst orchestrating production from supply chains.<sup>190</sup> Changes in technology and communication, especially digitalisation, have increased the efficiency of smaller scale production, enabling much greater flexibility in production arrangements and facilitating more rapid product development.<sup>191</sup> In conjunction with these changes, the ability of firms to brand products through trade marks has enabled them to respond to and take advantage of innovation more rapidly and has increased the scope they have to market customised products and to upgrade them rapidly to meet consumer demand for greater variety and differentiation. As a basis for communication about branded products, trade marks also facilitate the kind of feedback between consumers and producers that can help firms to compete more effectively in these conditions.<sup>192</sup> Whilst brand owners need to have sufficient control over production to protect the track records and attractive power of their brands, changes in technology and communication have made it easier to do this indirectly through contractual mechanisms.

The ability to engage in marketing to attract specific demand to distinctive product identities under their exclusive control, to shape and orchestrate this demand and to outsource the production of the relevant supply into supply chains has enabled firms to reduce their costs, increase their profits and given them strategic power. This has shifted

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<sup>188</sup> *Major Bros. v Franklin* [1908] 1 KB 712 (HC); *Primark v Lollypop Clothing* [2001] FSR 637 (HC); Case C-9/93 *IHT v Ideal-Standard* [1994] ECR I-2789 [38]-[39].

<sup>189</sup> *Bostitch TM* [1963] RPC 183 (HC).

<sup>190</sup> This trend lay behind the practices and conditions that Naomi Klein addressed in her millennial bestseller: N. Klein, n. 101.

<sup>191</sup> C.F. Sabel and J. Zeitlin, n. 100, at 394-395; S. Berger, n. 100, at 78. See further M.J. Piore and C.F. Sabel, *The Second Industrial Divide: Possibilities for Prosperity* (New York, NY, USA: Basic Books, 1984); R. N. Langlois (2002), n. 99; J. Froud et al, n. 8.

<sup>192</sup> C. Lury, n. 89, at 27-28.

the balance of power in the global economy away from firms engaged in production in many industries.<sup>193</sup> Where upstream firms are not well placed to market their products directly to consumers and attract specific demand, they are more vulnerable to the bargaining power of downstream marketing and retail firms that are well-placed to do so.<sup>194</sup> Here, the effect of branding is to intensify competition within supply chains in terms of price, reliability and speed of production, but not necessarily for the benefit of consumers who are dependent on the effectiveness of competition further downstream at the marketing and retail stages and who in any event may face substantial switching costs.<sup>195</sup> Greater reliance on outsourcing raises other concerns. Competitive pressures within supply chains, with firms engaged in production having to compete on cost minimisation and their ability and willingness to meet tight deadlines, are not conducive to ensuring high standards of working conditions and good business behaviour.<sup>196</sup>

Outsourcing also gives firms greater scope to avoid direct responsibility for ensuring compliance with regulation applying to working conditions, environmental protection and other aspects of production. Responsibility for working conditions and business behaviour in supply chains has been a major concern in attempts to ensure minimum global standards such as the United Nations' Guiding Principles on Business and Human Rights.<sup>197</sup> The commercial accountability that brands facilitate should in principle cover conditions and standards within supply chains since these form part of the overall commercial provenance of branded products and, as with the material quality of inputs, they are something that brand owners could control and vouch for if they had enough incentive to do so.<sup>198</sup> This would provide some mitigation of the negative impact of branding in this respect.<sup>199</sup> Organisational reputation can be a factor in the appeal of brands to consumers, with their trade mark signifiers providing salient focal points for any bad publicity concerning standards and

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<sup>193</sup> P.C. Zerrillo and G.M. Thomas, "Developing Brands and Emerging Markets: An Empirical Application", (2007) 3 *Place Branding and Public Diplomacy* 86-99; J. Froud et al, n. 8, at 48-54.

<sup>194</sup> It has been argued that in the garment industry, large sub-contracting firms that specialise in co-ordinating production through flexible supply chains may be gaining in countervailing bargaining power in relation to downstream brand owners: S. Azmeh and K. Nadvi, n. 12.

<sup>195</sup> On "switching costs", see above at n. 77.

<sup>196</sup> N. Klein, n. 101, at 212. The Rana Plaza disaster in Bangladesh in April 2013 illustrates the dangers in this respect: see J. Burke, "Rana Plaza: One Year on from the Bangladesh Factory Disaster", *The Guardian*, 19 April 2014; available at <https://www.theguardian.com/world/2014/apr/19/rana-plaza-bangladesh-one-year-on> (accessed 24 March 2017). See further n. 101.

<sup>197</sup> The United Nations' Guiding Principles on Business and Human Rights (2011): see, for example, L. Talbot, *Great Debates in Company Law* (Palgrave, 2014) at 108-137.

<sup>198</sup> The Ruggie Principles emphasise the importance of business actors exercising human rights "due diligence" to ensure that human rights are respected in their supply chains. On the comparative effectiveness of regulating supply chains through contract, see M.P. Vandenbergh, "The New Wal-Mart Effect: The Role of Private Contracting in Global Governance", (2007) 54 *UCLA Law Review* 913-970.

<sup>199</sup> S. Hilton, "The Social Value of Brands", in R. Clifton and J. Simmons (eds), *Brands and Branding* (The Economist in association with Profile Books, London 2003) 47-64 at 55; A.P. Griffiths, "Trade Marks and Responsible Capitalism", (2012) 43 *International Review of Intellectual Property and Competition Law* 798-824. On the limitations and shortcomings of this capacity, see also M. Chon (2009), n. 56; M. Chon (2014), n. 10; M. Chon (2017), n. 39.

behaviour in their supply chains and for their owners' efforts at countering that bad publicity.<sup>200</sup> Nevertheless, the strength of this incentive in practice and therefore its mitigating effect depends on a number of variable factors, not least the willingness of consumers to give weight to business standards and behaviour in their decision-making and the prices that they are willing to pay.

## 6. Conclusion

This article has linked trade marks and the brands that they signify to two forms of power that large firms possess, namely market power and discretionary power. In *Corporate Power and Responsibility*, John Parkinson saw both these forms as contributing to the overall social decision-making power of large firms and as justifying efforts to require them to act in the public interest. This article has argued that the ability of firms to use trade marks to brand products, engage in marketing and build up goodwill as a distinct intangible resource increases their potential to gain and exercise both forms of power.

The study of Apple noted in this article has shown the strategic value to a large firm of having a strong marketing presence along with a resource that enables it to attract demand from consumers to a range of products including ones that are new or rapidly upgraded. The flexibility of a brand as a marketing resource helps to explain the extent of the discretionary power that some large firms enjoy over the opportunities available to consumers. Firms with market power also have discretionary power over the production or procurement of the products that they put on the market and therefore over the opportunities of firms and personnel involved in this activity and over other parties who may be affected by it. In particular, the article has shown how brands facilitate the separation of marketing from production in consumer-facing industries and enabled each of these activities to evolve according to its own economic logic. This has increased the scope that large firms have to focus on marketing along with other higher value activities and to outsource production into global supply chains. Apple, for example, has outsourced much of its production into a trans-Pacific supply chain and its market power has given it significant bargaining power within this chain. This article has also noted the importance of this scope for outsourcing to the "fast fashion" business model in the garment industry and how it led to the transformation of Clarks shoes into a global marketing firm.

The ability of firms to establish brands and use them as a resource in the development and deployment of their activities and capabilities has implications for analysing and understanding corporate power and for efforts at regulating it for the benefit of those whose

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<sup>200</sup> Brands were targets for publicity concerning the Rana Plaza disaster and for the various initiatives that have followed that disaster. These include the Accord on Fire and Building Safety in Bangladesh, December 30, 2013 and the Alliance for Bangladesh Worker Safety, which was formed in 2013.

lives and interests are affected by it. This ability can make large firms much more protean and elusive and therefore much harder to regulate effectively. It has expanded the range of parties who may be affected by the activities of large firms, but has also reduced the direct responsibility of large firms for these parties. It has helped to weaken the ties that many large firms once had to particular places and communities and to increase their tendency to become financially-driven. Brands have done much to shape the nature, direction and organisation of economic activity in the globalised world, the balance of power among business actors and the overall structure of opportunities in that world. These are all matters that efforts to require large firms to act in the public interest need to take into account.